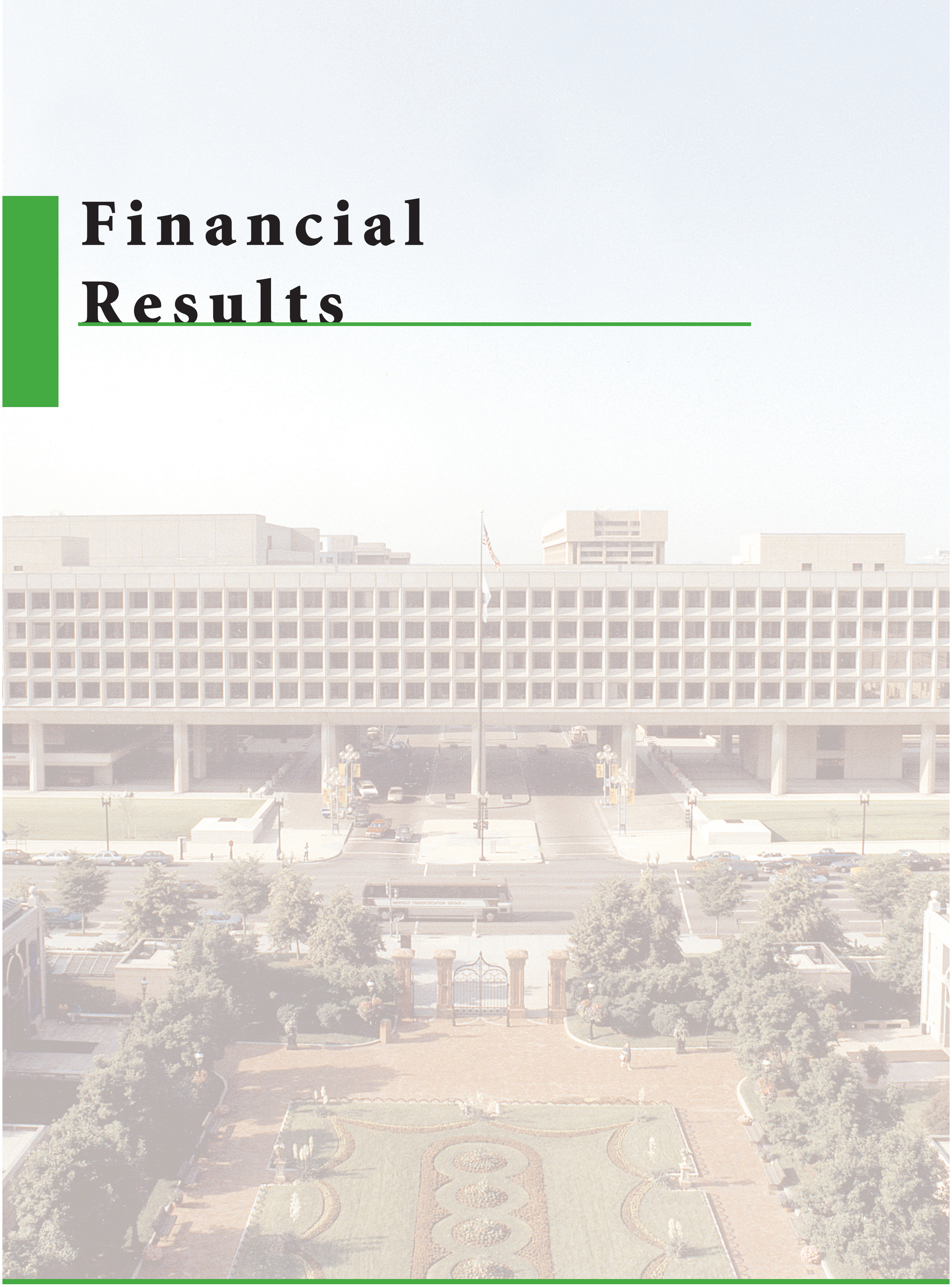
Financial Results



MESSAGE FROM THE CHIEF FINANCIAL OFFICER

The Department is continuing to make progress in achieving measurable improvements in its financial management practices. With the submission of this report we have successfully met, for the second year in a row, the Office of Management and Budget's accelerated due date for issuing our Performance and Accountability Report within 45 days after the close of the fiscal year.

During the year we made progress in a number of significant management improvement initiatives. For example, after conducting a competitive sourcing, we made a decision for a joint venture of Federal workers and private sector companies to manage the Department's information technology services. The contract, anticipated for implementation in early 2006, is expected to achieve over $300 million in savings and cost avoidance over seven years.

The Department's fiscal year 2005 financial statements provided in this report have been reviewed by independent auditors and received a disclaimer of opinion with a reported material weakness in financial management and reporting controls. We anticipated the challenges of implementing a new Department-wide financial services organization in addition to a new core financial management system and successfully resolved many of the initial issues. However, we still have work to do in accomplishing our goals for financial excellence in this area.

The Department continues to work on key accounting reconciliations to ensure system data integrity and to resolve issues with converting data from the Department's legacy accounting system. When fully functional, the new accounting organization and system will serve as cornerstones for enhanced integration of financial and performance information, increased data integrity and internal controls, and improved access to financial information. We expect these financial control and reporting challenges to be fully resolved during fiscal year 2006. We are also making progress in addressing the reportable condition related to unclassified network security.

Our commitment to the American people is to manage their resources wisely and effectively. I believe you will find this Performance and Accountability Report demonstrates that the Department of Energy takes this responsibility seriously and, through a sustained focus on results, is working diligently to ensure that taxpayers' dollars are well managed. We look forward to continued improvement in meeting our commitment to the American people in the years to come.

Susan J. Grant
November 15, 2005

CONSOLIDATED & COMBINED FINANCIAL STATEMENTS

The Department's financial statements have been prepared to report the financial position and results of operations of the Department of Energy, pursuant to the requirements of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, and the Office of Management and Budget's (OMB) Circular A-136, "Financial Reporting Requirements."

The responsibility for the integrity of the financial information included in these statements rests with the management of the Department of Energy. An independent certified public accounting firm selected by the Department's Office of Inspector General was engaged to perform an audit of the Department's principal financial statements. The report issued by the independent accountants is included in this report.

The following provides a brief description of the nature of each required financial statement.

The *Consolidated Balance Sheets* describe the assets, liabilities, and net position components of the Department.

The *Consolidated Statements of Net Cost* summarize the Department's operating costs by the seven long-term general goals identified in the Department's FY 2003 Strategic Plan.

All operating costs reported reflect full costs, including all direct and indirect costs, consumed by a program or responsibility segment. The full costs are reduced by earned revenues to arrive at net costs. The Net Cost of Operations is reported on the *Consolidated Statements of Net Cost* and also on the *Consolidated Statements of Financing*.

The *Consolidated Statements of Changes in Net Position* identify appropriated funds used as a financing source for goods, services, or capital acquisitions. This statement presents the accounting events that caused changes in the net position section of the *Consolidated Balance Sheets* from the beginning to the end of the reporting period.

The *Combined Statements of Budgetary Resources* identify the Department's budget authority. Budget authority is the authority that Federal law gives to agencies to incur financial obligations that will eventually result in outlays or expenditures. Specific forms of budget authority that the Department receives are appropriations, borrowing authority, contract authority, and spending authority from offsetting collections. The *Combined Statements of Budgetary Resources* provides information on budgetary resources available to the Department during the year and the status of those resources at the end of the year. Detail on the amounts shown in the *Combined Statements of Budgetary Resources* is included in the Required Supplementary Information section on the schedule *Budgetary Resources by Major Account*.

The *Consolidated Statements of Financing* reconcile the obligations incurred to finance operations with the net cost of operations. Obligations incurred include amounts of orders placed, contracts awarded, services received, and similar transactions that require payment during the same or future period.

The *Consolidated Statements of Custodial Activities* identify revenues collected by the Department on behalf of others. These revenues primarily result from power marketing administrations that sell power generated by hydroelectric facilities owned by the Corps of Engineers and the Bureau of Reclamation.

Principal Statements

U. S. Department of Energy
Consolidated Balance Sheets

As of September 30, 2005 and 2004
($ in millions)

	FY 2005 (unaudited)	FY 2004
ASSETS (Note 2)		
Intragovernmental		
Fund Balance with Treasury (Note 3)	$ 15,634	$ 15,606
Investments, Net (Note 4)	22,197	20,532
Accounts Receivable, Net (Note 5)	652	563
Regulatory Assets (Note 6)	4,536	4,613
Other	21	13
Total Intragovernmental	$ 43,040	$ 41,327
Investments, Net (Note 4)	230	256
Accounts Receivable, Net (Note 5)	3,990	4,062
Inventory, Net (Note 7)		
Strategic Petroleum and Northeast Home Heating Oil Reserves	19,314	18,148
Nuclear Materials	21,285	21,722
Other	444	436
General Property, Plant, and Equipment, Net (Note 8)	23,190	22,333
Regulatory Assets (Note 6)	5,653	5,741
Other Non-Intragovernmental Assets (Note 9)	4,591	5,283
Total Assets	$ 121,737	$ 119,308
LIABILITIES (Note 10)		
Intragovernmental		
Accounts Payable	$ 56	$ 101
Debt (Note 11)	9,958	10,468
Deferred Revenues and Other Credits (Note 12)	125	149
Other Liabilities (Note 13)	169	262
Total Intragovernmental	$ 10,308	$ 10,980
Accounts Payable	3,883	3,383
Debt Held by the Public (Note 11)	6,574	6,531
Deferred Revenues and Other Credits (Note 12)	21,592	20,235
Environmental and Disposal Liabilities (Note 14)	189,710	181,742
Pension and Other Actuarial Liabilities (Note 15)	11,727	10,530
Other Liabilities (Note 13)	3,664	4,367
Contingencies and Commitments (Note 16)	5,058	1,943
Total Liabilities	$ 252,516	$ 239,711
NET POSITION		
Unexpended Appropriations	$ 8,978	$ 8,784
Cumulative Results of Operations	(139,757)	(129,187)
Total Net Position	$ (130,779)	$ (120,403)
Total Liabilities and Net Position	$ 121,737	$ 119,308

The accompanying notes are an integral part of these statements

U. S. Department of Energy
Consolidated Statements of Net Cost

For Years Ended September 30, 2005 and 2004
($ in millions)

	FY 2005 (unaudited)	FY 2004
STRATEGIC GOALS:		
Defense		
Nuclear Weapons Stewardship:		
Total Program Costs	$ 6,779	$ 6,220
Nuclear Nonproliferation:		
Total Program Costs	$ 1,191	$ 1,101
Naval Reactors:		
Program Costs	810	740
Less: Earned Revenues (Note 17)	(18)	(8)
Net Cost of Naval Reactors	$ 792	$ 732
Net Cost of Defense	$ 8,762	$ 8,053
Energy		
Program Costs	6,617	6,378
Less: Earned Revenues (Note 17)	(4,120)	(4,089)
Net Cost of Energy	$ 2,497	$ 2,289
Science		
Total Program Costs	$ 3,565	$ 3,196
Environment		
Environmental Management:		
Program Costs	6,719	6,283
Less: Earned Revenues (Note 17)	(151)	(153)
Net Cost of Environmental Management	$ 6,568	$ 6,130
Nuclear Waste:		
Program Costs	521	530
Less: Earned Revenues (Note 17)	(321)	(322)
Net Cost of Nuclear Waste	$ 200	$ 208
Net Cost of Environment	$ 6,768	$ 6,338
Net Cost of Strategic Goals	$ 21,592	$ 19,876
OTHER PROGRAMS:		
Reimbursable Programs:		
Program Costs	3,314	2,738
Less: Earned Revenues (Note 17)	(3,251)	(2,757)
Net Cost of Reimbursable Programs	$ 63	$ (19)
Other Programs: (Note 18)		
Program Costs	667	758
Earned Revenues (Note 17)	(297)	(303)
Net Cost of Other Programs	$ 370	$ 455
Costs Applied to Reduction of Legacy Environmental Liabilities (Note 19)	$ (6,637)	$ (6,667)
Costs Not Assigned (Note 20)	25,499	8,277
Net Cost of Operations	$ 40,887	$ 21,922

The accompanying notes are an integral part of these statements

U. S. Department of Energy
Consolidated Statements of Changes in Net Position

For Years Ended September 30, 2005 and 2004
($ in millions)

	FY 2005 (unaudited)	FY 2004
CUMULATIVE RESULTS OF OPERATIONS:		
Beginning Balance	$ (129,187)	$ (132,162)
Budgetary Financing Sources:		
Appropriations Used	23,711	23,109
Nonexchange Revenues	35	13
Donations, Financial	13	1
Transfers - In/(Out) Without Reimbursement, Budgetary	(154)	(260)
Other Financing Sources:		
Donations	340	-
Transfers - In/(Out) Without Reimbursement, Nonbudgetary	2,132	1,031
Imputed Financing from Costs Absorbed by Others	4,279	1,011
Other Gains and Losses	(39)	(8)
Total Financing Sources	$ 30,317	$ 24,897
Net Cost of Operations	(40,887)	(21,922)
Net Change	$ (10,570)	$ 2,975
Ending Balance - Cumulative Results of Operations	$ (139,757)	$ (129,187)
UNEXPENDED APPROPRIATIONS:		
Beginning Balance	$ 8,784	$ 8,900
Budgetary Financing Sources Related to Appropriations:		
Appropriations Received (Note 22)	23,782	23,173
Appropriations Transferred - In/(Out)	312	11
Other Adjustments	(189)	(191)
Appropriations Used	(23,711)	(23,109)
Total Financing Sources Related to Appropriations	$ 194	$ (116)
Ending Balance - Unexpended Appropriations	$ 8,978	$ 8,784

The accompanying notes are an integral part of these statements

U. S. Department of Energy
Combined Statements of Budgetary Resources

For Years Ended September 30, 2005 and 2004
($ in millions)

	FY 2005 (unaudited)	FY 2004
BUDGETARY RESOURCES		
Budget Authority		
Appropriations Received (Note 22)	$ 25,062	$ 24,190
Borrowing and Contract Authority	1,333	1,681
Net Transfers	167	(85)
Unobligated Balance		
Beginning of Period (Note 22)	4,036	3,576
Net Transfers, Actual	2	(2)
Spending Authority from Offsetting Collections		
Earned		
Collected	7,224	7,003
Receivable from Federal Sources	131	23
Change in Unfilled Customer Orders		
Advances received	30	(40)
Without Advances from Federal Sources	212	985
Recoveries of Prior Year Obligations		
Actual	34	32
Authority Temporarily Not Available	(266)	(101)
Authority Permanently Not Available	(1,848)	(739)
Total Budgetary Resources (Note 22)	$ 36,117	$ 36,523
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred		
Direct	$ 24,879	$ 23,878
Exempt from Apportionment	3,253	4,547
Reimbursable	3,744	4,062
Total Obligations Incurred (Note 22)	$ 31,876	$ 32,487
Unobligated Balances Available		
Apportioned Available	2,588	2,538
Exempt from Apportionment	24	12
Unobligated Balances Not Available (Note 22)	1,629	1,486
Total Status of Budgetary Resources	$ 36,117	$ 36,523
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS		
Obligated Balance - Beginning of Period	$ 12,903	$ 11,506
Obligated Balance - End of Period		
Accounts Receivable	$ (766)	$ (636)
Unfilled Customer Orders from Federal Sources	(3,921)	(3,708)
Undelivered Orders	10,577	10,361
Accounts Payable	6,655	6,886
	$ 12,545	$ 12,903
Outlays		
Disbursements	$ 31,856	$ 30,050
Collections	(7,253)	(6,963)
Subtotal	$ 24,603	$ 23,087
Less: Offsetting Receipts	(3,236)	(3,161)
Net Outlays	$ 21,367	$ 19,926

The accompanying notes are an integral part of these statements

U. S. Department of Energy
Consolidated Statements of Financing

For Years Ended September 30, 2005 and 2004
($ in millions)

	FY 2005 (unaudited)	FY 2004
RESOURCES USED TO FINANCE ACTIVITIES:		
Budgetary Resources Obligated:		
Obligations Incurred	$ 31,876	$ 32,487
Less: Spending Authority from Offsetting Collections and Recoveries	(7,631)	(8,003)
Obligations, Net of Offsetting Collections and Recoveries	$ 24,245	$ 24,484
Offsetting Receipts	(3,236)	(3,161)
Net Obligations	$ 21,009	$ 21,323
Other Resources:		
Donations	$ 1	$ -
Imputed Financing from Costs Absorbed by Others	4,279	1,011
Transfers-In/(Out)	2,132	1,031
Nuclear Waste Fund Offsetting Receipts, Deferred (Note 21)	2,095	2,095
Other	13	(8)
Net Other Resources Used to Finance Activities	$ 8,520	$ 4,129
Total Resources Used to Finance Activities	$ 29,529	$ 25,452
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS:		
Change in Resources Obligated for Goods/Services/Benefits Ordered But Not Yet Provided	$ 72	$ 506
Resources that Finance the Acquisition of Assets	(5,750)	(4,436)
Resources that Fund Expenses Recognized in Prior Periods	(6,464)	(7,298)
Budgetary Offsetting Collections and Receipts that Do Not Affect the Net Cost of Operations	175	87
Other Resources and Adjustments	(410)	(1,813)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	$ (12,377)	$ (12,954)
Total Resources Used to Finance the Net Cost of Operations	$ 17,152	$ 12,498
NET COST OF ITEMS THAT DO NOT REQUIRE OR GENERATE RESOURCES IN CURRENT PERIOD:		
Components Requiring or Generating Resources in Future Periods:		
Increase in Unfunded Liability Estimates (Note 23)	$ 21,200	$ 7,557
Increase in Exchange Revenue Receivable from the Public	2	3
Total Components Requiring or Generating Resources in Future Periods	$ 21,202	$ 7,560
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	$ 1,818	$ 1,539
Revaluation of Assets and Liabilities	(194)	(161)
Other	909	486
Total Components Not Requiring or Generating Resources	$ 2,533	$ 1,864
Total Net Cost of Items that Do Not Require or Generate Resources in Current Period	$ 23,735	$ 9,424
NET COST OF OPERATIONS	$ 40,887	$ 21,922

The accompanying notes are an integral part of these statements

U. S. Department of Energy
Consolidated Statements of Custodial Activities

For Years Ended September 30, 2005 and 2004
($ in millions)

	FY 2005 (unaudited)	FY 2004
SOURCES OF COLLECTIONS		
Cash Collections (Note 24)		
Interest	$ 20	$ 3
Federal Energy Regulatory Commission	53	75
Power Marketing Administration Custodial Revenue	657	624
Other Custodial Revenue	3	-
Total Cash Collections	$ 733	$ 702
Accrual Adjustment	(19)	4
Total Revenue	$ 714	$ 706
DISPOSITION OF REVENUE		
Transferred to Others		
Department of the Treasury	(624)	(521)
Army Corps of Engineers	(5)	(7)
Bureau of Reclamation	(79)	(144)
Others	(3)	(9)
Decrease in Amounts to be Transferred	(3)	(25)
Net Custodial Activity	$ -	$ -

The accompanying notes are an integral part of these statements

Notes to the Consolidated & Combined Financial Statements

1. Summary of Significant Accounting Policies

A. Basis of Presentation

These consolidated and combined financial statements have been prepared to report the financial position and results of operations of the U.S. Department of Energy (the Department). The statements were prepared from the books and records of the Department in accordance with generally accepted accounting principles applicable to Federal entities.

B. Description of Reporting Entity

The Department is a cabinet level agency of the Executive Branch of the U.S. Government. The Department is not subject to Federal, state, or local income taxes. The Department's headquarters organizations are located in Washington, D.C., and Germantown, Maryland, and consist of an executive management structure that includes the Secretary; the Deputy Secretary; the Under Secretary for Energy, Science and Environment; the Under Secretary for Nuclear Security/Administrator for National Nuclear Security Administration; Secretarial staff organizations; and program organizations that provide technical direction and support for the Department's principal programmatic missions. The Department also includes the Federal Energy Regulatory Commission, which is an independent regulatory organization responsible for setting rates and charges for the transportation and sale of natural gas and for the transmission and sale of electricity and the licensing of hydroelectric power projects.

The Department has a complex field structure comprised of operations offices, field offices, power marketing administrations (Bonneville Power Administration, Southeastern Power Administration, Southwestern Power Administration, and Western Area Power Administration), laboratories, and other facilities. The majority of the Department's environmental cleanup, energy research and development, and testing and production activities are carried out by major contractors. These contractors operate, maintain, or support the Department's Government-owned facilities on a day-to-day basis and provide other special work under the direction of DOE field organizations. The Department indemnifies these contractors against financial responsibility from nuclear accidents under the provisions of the Price-Anderson Act.

These contractors have unique contractual relationships with the Department. In most cases, their charts of accounts and accounting systems are integrated with the Department's accounting system through a home office-branch type of arrangement. Additionally, the Department is responsible for funding certain defined benefit pension plans, as well as postretirement benefits such as medical care and life insurance, for the employees of these contractors. As a result, the Department's financial statements reflect not only the costs incurred by these contractors, but also include certain contractor assets (e.g., employee advances and prepaid pension costs) and liabilities (e.g., accounts payable, accrued expenses including payroll and benefits, and pension and other actuarial liabilities) that would not be reflected in the financial statements of other Federal agencies that do not have these unique contractual relationships.

C. Basis of Accounting

Transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when liabilities are incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds. All material intra-departmental balances and transactions have been eliminated in the *Consolidated Balance Sheets, Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position, Consolidated Statements of Financing, and Consolidated Statements of Custodial Activities.* The *Combined Statements of Budgetary Resources* are prepared on a combined basis and do not include intra-departmental eliminations.

D. Fund Balance with Treasury

Funds with the Department of the Treasury (Treasury) primarily represent appropriated and revolving funds that are available to pay current liabilities and finance authorized purchases. Disbursements and receipts are processed by Treasury, and the Department's records are reconciled with those of Treasury (see Note 3).

E. Investments, Net

All investments are reported at cost net of amortized premiums and discounts as it is the Department's intent to hold the investments to maturity. Premiums and discounts are amortized using the effective interest yield method (see Note 4).

F. Accounts Receivable, Net

The amounts due for non-intragovernmental (non-Federal) receivables are stated net of an allowance for uncollectable accounts. The estimate of the allowance is based on past experience in the collection of receivables and an analysis of the outstanding balances (see Note 5).

G. Inventory, Net

Stockpile materials are recorded at historical cost in accordance with SFFAS No. 3, *Accounting for Inventory and Related Property*, except for certain nuclear materials identified as surplus or excess to the Department's needs. These nuclear materials are recorded at their net realizable value (see Note 7).

H. General Property, Plant, and Equipment, Net

Property, plant, and equipment that are purchased, constructed, or fabricated in-house, including major modifications or improvements, are capitalized at cost. The Department's property, plant, and equipment capitalization threshold is $25,000, except for the power marketing administrations, which use thresholds ranging from $5,000 to $10,000. The capitalization threshold for internal use software is $750,000, except for the power marketing administrations, which use thresholds ranging from $5,000 to $100,000 (see Note 8).

Costs of construction are capitalized as construction work in process. Upon completion or beneficial occupancy or use, the cost is transferred to the appropriate property account. Property, plant, and equipment related to environmental management facilities storing and processing the Department's environmental legacy wastes are not capitalized.

Depreciation expense is generally computed using the straight line method. The units of production method is used only in special cases where applicable, such as depreciating automotive equipment on a mileage basis and construction equipment on an hourly use basis. The ranges of service lives are generally as follows:

- Structures and Facilities 25 - 50 years
- ADP Software 3 - 7 years
- Equipment 5 - 40 years
- Land and land rights - duration of period or 50 years, whichever is less

I. Liabilities

Liabilities represent amounts of monies or other resources likely to be paid by the Department as a result of a transaction or event that has already occurred. However, no liability can be paid by the Department absent an authorized appropriation. Liabilities for which an appropriation has not been enacted are, therefore, classified as not covered by budgetary resources (see Note 10), and there is no certainty that the appropriations will be enacted. Also, liabilities of the Department arising from other than contracts can be abrogated by the Government acting in its sovereign capacity.

J. Accrued Annual, Sick, and Other Leave

Federal employees' annual leave is accrued as it is earned, and the accrual is reduced annually for actual leave taken. Each year, the accrued annual leave balance is adjusted to reflect the latest pay rates. To the extent that current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of nonvested leave are expensed as taken.

K. Retirement Plans

Federal Employees

There are two primary retirement systems for Federal employees. Employees hired prior to January 1, 1984, may participate in the Civil Service Retirement System (CSRS). On January 1, 1984, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, elected to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which the Department automatically contributes one percent of pay and matches any employee contribution up to an additional four percent of pay. For most employees hired since December 31, 1983, the Department also contributes the employer's matching share for Social Security. The Department does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of the Office of Personnel Management and the Federal Employees Retirement System. The Department does report, as an imputed financing source and a program expense, the difference between its contributions to Federal employee pension and other retirement benefits and the estimated actuarial costs as computed by the Office of Personnel Management.

Contractor Employees

Most of the Department's contractors maintain a defined benefit pension plan under which they promise to pay employees specified benefits, such as a percentage of the final average pay for each year of service. The Department's cost under the contracts includes reimbursement of annual employer contributions to the pension plans.

Each year an amount is calculated for employers to contribute to the pension plan to ensure the plan assets are sufficient to provide for the full accrued benefits of contractor employees in the event that the plan is terminated. The level of contributions is dependent on actuarial assumptions about the future, such as the interest rate, employee turnover and deaths, age of retirement, and salary progression. The Department reports assets and liabilities of these pension plans as if it were the plan sponsor (see Note 15).

L. Net Cost of Operations

Program costs are summarized in the *Consolidated Statements of Net Cost* by the seven long-term general goals identified in the Department's September 30, 2003 Strategic Plan. Program costs reflect full costs including all direct and indirect costs consumed by these general goals. Full costs are reduced by exchange (earned) revenues to arrive at net operating cost (see Notes 17 and 18). The general goals are summarized below.

- Nuclear Weapons Stewardship – Ensure that our nuclear weapons continue to serve their essential deterrence role by maintaining and enhancing the safety, security, and reliability of the U.S. nuclear weapons stockpile.
- Nuclear Nonproliferation – Provide technical leadership to limit or prevent the spread of materials, technology, and expertise relating to weapons of mass destruction; advance the technologies to detect the proliferation of weapons of mass destruction worldwide; and eliminate or secure inventories of surplus materials and infrastructure usable for nuclear weapons.
- Naval Reactors – Provide the Navy with safe, militarily effective nuclear propulsion plants and ensure their continued safe and reliable operation.
- Energy Security – Improve energy security by developing technologies that foster a diverse supply of reliable, affordable, and environmentally sound energy by providing for reliable delivery of energy, guarding against energy emergencies, exploring advanced technologies that make a fundamental improvement in our mix of energy options, and improving energy efficiency.
- World-Class Scientific Research Capacity – Provide world-class scientific research capacity needed to: ensure the success of Department missions in national and energy security; advance the frontiers of knowledge in physical sciences and areas of biological, medical, environmental, and computational sciences; or provide world-class research facilities for the Nation's science enterprise.
- Environmental Management – Accelerate cleanup of nuclear weapons manufacturing and testing sites, completing cleanup of 114 contaminated sites by 2035.
- Nuclear Waste – License and construct a permanent repository for nuclear waste at Yucca Mountain.

M. Revenues and Other Financing Sources

The Department receives the majority of the funding needed to perform its mission through Congressional appropriations. These appropriations may be used, within statutory limits, for operating and capital expenditures. In addition to appropriations, financing sources include exchange and non-exchange revenues, imputed financing sources, and custodial revenues.

Exchange and Non-Exchange Revenues: In accordance with Federal Government accounting standards, the Department classifies revenues as either exchange (earned) or non-exchange. Exchange revenues are those that derive from transactions in which both the Government and the other party receive value (see Note 17). Non-exchange revenues derive from the Government's sovereign right to demand payment, including fines and penalties. These revenues are not considered to reduce the cost of the Department's operations and are reported on the *Consolidated Statements of Changes in Net Position.*

Imputed Financing Sources: In certain instances program costs of the Department are paid out of funds appropriated to other Federal agencies. For example, certain costs of retirement programs are paid by the Office of Personnel Management, and certain legal judgments against the Department are paid from the Judgment Fund maintained by Treasury. When costs that are directly attributable to the Department's operations are paid by other agencies, the Department recognizes these amounts on the *Consolidated Statements of Net Cost.* In addition, these amounts are recognized as imputed financing sources on the *Consolidated Statements of Changes in Net Position* and the *Consolidated Statements of Financing.*

Custodial Revenues: The Department collects certain revenues on behalf of others which are designated as custodial revenues. The Department incurs virtually no costs to generate these revenues, nor can it use these revenues to finance its operations. These revenues are returned to Treasury and others and are reported on the Consolidated Statements of Custodial Activities (see Note 24).

N. Use of Estimates

The Department has made certain estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements. Actual results could differ from these estimates.

O. Comparative Data

Certain FY 2004 amounts have been reclassified to conform to the FY 2005 presentation.

2. Non-Entity Assets

(in millions)

		FY 2005 (unaudited)		FY 2004
Intragovernmental				
Fund balance with Treasury				
Naval Petroleum Reserve Deposit Fund (Note 13)	$	323	$	323
Elk Hills School Land Fund (Note 13)		82		118
Investments - Petroleum Pricing Violation Escrow Fund (Notes 4 and 13)		280		251
Subtotal	$	685	$	692
Investments - Petroleum Pricing Violation Escrow Fund (Notes 4 and 13)		230		256
Accounts receivable - Petroleum Pricing Violation Escrow Fund (Notes 5 and 13)		1		16
Inventories - Department of Defense stockpile oil (Notes 7 and 13)		106		106
Other		9		3
Total non-entity assets	$	1,031	$	1,073
Total entity assets		120,706		118,235
Total assets	**$**	**121,737**	**$**	**119,308**

Assets in the possession of the Department that are not available for its use are considered non-entity assets.

Naval Petroleum Reserve Deposit Fund

The balance in this fund represents proceeds from the sale of the Naval Petroleum Reserve at Elk Hills that are being held until final disposition in accordance with the Decoupling Agreement. Approximately $288 million is being held for a contingency payment to Chevron, Inc., pending the outcome of equity finalization. The remaining $35 million is reserved for anticipated adjustments to Occidental's final payment and for possible reimbursement to the investment banker for an advance on its commission.

Petroleum Pricing Violation Escrow Fund

The Petroleum Pricing Violation Escrow Fund represents custodial receipts collected as a result of agreements or court orders with individuals or firms that violated petroleum pricing and allocation regulations during the 1970s. These receipts are invested in Treasury securities and certificates of deposit at minority-owned financial institutions pending determination by the Department as to how to distribute the fund balance.

3. Fund Balance With Treasury

(in millions)

September 30, 2005 (unaudited)	Appropriated Funds	Revolving Funds	Special Funds	Other Funds	Total
Unobligated budgetary resources					
Available	$ 2,382	$ 95	$ 135	$ -	$ 2,612
Unavailable (Note 22)	240	1,388	1	-	1,629
Obligated balance not yet disbursed					
Undelivered orders	10,215	38	319	5	10,577
Unfilled customer orders	(3,917)	-	(4)	-	(3,921)
Receivables for reimbursements earned	(461)	(296)	(9)	-	(766)
Accounts payable and deposit fund liabilities	4,535	1,916	192	402	7,045
Other adjustments					
Appropriations temporarily not available pursuant to law, and contract authority	257	(1,018)	-	-	(761)
Unavailable receipt accounts	-	-	963	-	963
Budgetary resources invested in Treasury securities					
Nuclear Waste Fund	-	-	(284)	-	(284)
Uranium Enrichment D&D Fund	-	-	(68)	-	(68)
Pajarito Plateau Homesteaders Fund	-	-	(8)	-	(8)
U.S. Enrichment Corporation revolving fund	-	(1,384)	-	-	(1,384)
Total FY 2005 fund balance with Treasury	**$ 13,251**	**$ 739**	**$ 1,237**	**$ 407**	**$ 15,634**

September 30, 2004	Appropriated Funds	Revolving Funds	Special Funds	Other Funds	Total
Unobligated budgetary resources					
Available	$ 2,348	$ 97	$ 105	$ -	$ 2,550
Unavailable (Note 22)	132	1,354	-	-	1,486
Obligated balance not yet disbursed					
Undelivered orders	9,980	43	333	5	10,361
Unfilled customer orders	(3,702)	-	(6)	-	(3,708)
Receivables for reimbursements earned	(380)	(249)	(7)	-	(636)
Accounts payable and deposit fund liabilities	4,615	2,086	185	402	7,288
Other adjustments					
Appropriations temporarily not available pursuant to law, and contract authority	97	(1,201)	-	-	(1,104)
Unavailable receipt accounts	-	-	1,000	-	1,000
Budgetary resources invested in Treasury securities					
Nuclear Waste Fund	-	-	(159)	-	(159)
Uranium Facilities Maintenance and Remediation	-	-	(122)	-	(122)
U.S. Enrichment Corporation revolving fund	-	(1,350)	-	-	(1,350)
Total FY 2004 fund balance with Treasury	**$ 13,090**	**$ 780**	**$ 1,329**	**$ 407**	**$ 15,606**

4. Investments, Net

(in millions)

Pursuant to statutory authorizations, the Department invests monies in Treasury securities and commercial certificates of deposit that are secured by the Federal Deposit Insurance Corporation. The Department's investments primarily involve the Nuclear Waste Fund (NWF) and the Uranium Enrichment Decontamination and Decommissioning (D&D) Fund. Fees paid by owners and generators of spent nuclear fuel and high-level radioactive waste and fees collected from domestic utilities are deposited into the respective funds.

Funds in excess of those needed to pay current program costs are invested in Treasury securities.

Upon privatization of the United States Enrichment Corporation (USEC) on July 28, 1998, OMB and Treasury designated the Department as successor to USEC for purposes of disposition of balances remaining in the USEC Fund. Funds in excess of those needed to liquidate USEC liabilities are invested in Treasury securities.

	Face	Unamortized Premium (Discount)	Investments Net	Unrealized Market Gains (Losses)	Market Value
September 30, 2005 (unaudited)					
Intragovernmental Non-Marketable					
Nuclear Waste Fund	$ 33,549	$ (17,037)	$ 16,512	$ 2,008	$ 18,520
D&D Fund	3,891	122	4,013	(46)	3,967
U.S. Enrichment Corporation	1,387	(3)	1,384	1	1,385
Petroleum Pricing Violation Escrow Fund	281	(1)	280	-	280
Pajarito Plateau Homesteaders Comp. Fund	8	-	8	-	8
Subtotal	$ 39,116	$ (16,919)	$ 22,197	$ 1,963	$ 24,160
Non-intragovernmental Marketable Securities					
Petroleum Pricing Violation Escrow Fund	230	-	230	-	230
Total FY 2005 investments	**$ 39,346**	**$ (16,919)**	**$ 22,427**	**$ 1,963**	**$ 24,390**
September 30, 2004					
Intragovernmental Non-Marketable					
Nuclear Waste Fund	$ 30,518	$ (15,342)	$ 15,176	$ 1,553	$ 16,729
D&D Fund	3,657	98	3,755	57	3,812
U.S. Enrichment Corporation	1,350	-	1,350	1	1,351
Petroleum Pricing Violation Escrow Fund	252	(1)	251	-	251
Subtotal	$ 35,777	$ (15,245)	$ 20,532	$ 1,611	$ 22,143
Non-intragovernmental Marketable Securities					
Petroleum Pricing Violation Escrow Fund	256	-	256	-	256
Total FY 2004 investments	**$ 36,033**	**$ (15,245)**	**$ 20,788**	**$ 1,611**	**$ 22,399**

5. Accounts Receivable, Net

(in millions)

	FY 2005 (unaudited)			FY 2004		
	Receivable	Allowance	Net	Receivable	Allowance	Net
Intragovernmental	$ 652	$ -	$ 652	$ 563	$ -	$ 563
Non-intragovernmental						
Nuclear Waste Fund	3,024	-	3,024	2,955	-	2,955
Uranium Enrichment D&D Fund	375	-	375	563	-	563
Power marketing administrations	465	(40)	425	483	(74)	409
Petroleum Pricing Violation Escrow Fund	1	-	1	2,074	(2,058)	16
Credit programs	54	(26)	28	55	(26)	29
Other	178	(41)	137	185	(95)	90
Subtotal	$ 4,097	$ (107)	$ 3,990	$ 6,315	$ (2,253)	$ 4,062
Total accounts receivable	**$ 4,749**	**$ (107)**	**$ 4,642**	**$ 6,878**	**$ (2,253)**	**$ 4,625**

Intragovernmental accounts receivable primarily represent amounts due from other Federal agencies for reimbursable work performed pursuant to the Economy Act, Atomic Energy Act, and other statutory authority, as well as interest earned on investments held in Treasury securities.

Non-intragovernmental receivables primarily represent amounts due for NWF and D&D Fund fees. NWF receivables are supported by contracts and agreements with owners and generators of spent nuclear fuel and high-level radioactive waste that contribute resources to the fund. D&D Fund receivables from public utilities are supported by public law. Other receivables due from the public include reimbursable work billings and other amounts related to trade receivables, and other miscellaneous receivables.

The Petroleum Pricing Violation Escrow Fund receivables resulted from agreements or court orders with individuals or firms that violated petroleum pricing and allocation regulations during the 1970s. The majority of these receivables were with individuals or firms that were in bankruptcy, or collection action was being taken by the Department of Justice. Allowance accounts were established to reflect the realistic potential for recovery of amounts owed through an intensive analysis of each case. The allowance account included interest receivable of $1,540 million as of September 30, 2004. During FY 2005 (unaudited), the Department reviewed these receivables and determined that collection was highly unlikely and wrote off the estimated uncollectable balance.

6. Regulatory Assets

(in millions)

	FY 2005 (unaudited)	FY 2004
Intragovernmental		
Appropriation refinancing asset	$ 4,536	$ 4,613
Non-intragovernmental		
Non-operating regulatory assets	3,955	3,990
Investor owned utilities (IOU) exchange benefits	964	988
Conservation and fish and wildlife projects	412	453
Other regulatory assets	322	310
Subtotal	$ 5,653	$ 5,741
Total regulatory assets	**$ 10,189**	**$ 10,354**

The Department's power marketing administrations record certain amounts as assets in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, *Accounting for the Efects of Certain Types of Regulation.* The provisions of SFAS No. 71 require that regulated enterprises reflect rate actions of the regulator in their financial statements, when appropriate. These rate actions can provide reasonable assurance of the existence of an asset, reduce or eliminate the value of an asset, or impose a liability on a regulated enterprise.

In order to defer incurred costs under SFAS No. 71, a regulated entity must have the statutory authority to establish rates that recover all costs. Rates so established must be charged to and collected from customers.

Appropriation Refinancing Asset

The BPA Appropriations Refinancing Act of 1996, 16 U.S.C. 8381, required that historic interest rates set on the Federal Columbia River Power System (FCRPS) capital appropriations, which BPA is obligated to set rates to recover, be reset and assigned prevailing market rates and the unpaid balance as of September 30, 1996 be reduced by a matching amount. These appropriations include the unpaid balance of capital appropriations of the power generating assets of the Corps of Engineers (Corps) and the Bureau of Reclamation associated with the FCRPS. The Corps and the Bureau of Reclamation continue to own and operate these assets, with BPA having the responsibility to recover the costs of the assets from power ratepayers. BPA established an intragovernmental regulatory asset representing the repayment amount of the transmission and power generating assets that will be recovered in BPA rates. This regulatory asset is being amortized over 68 years. BPA recognized annual amortization costs of $77 million in FY 2005 (unaudited) and FY 2004. The *Consolidated Balance Sheets* include a regulatory asset and an offsetting related debt.

Non-Operating Regulatory Assets

BPA has acquired all or part of the potential generating capability of four terminated nuclear power plants. The Government's contracts require BPA to pay all or part of the annual proj ects' budgets, including debt service of the terminated plants. These projects' current and future costs are recovered through BPA's rates. The *Consolidated Balance Sheets* include a regulatory asset and an offsetting related debt.

Investor Owned Utilities (IOU) Exchange Benefits

The IOU Exchange Benefits consist of future payments to be made to BPA's IOUs to be passed on to the utilities' qualified small-farm and residential customers. The regulatory asset offsets the liability on the balance sheet (see Note 12) as these amounts will be collected in future rates. It is possible that the agreements for these future payments may be revised in connection with legal challenges that have been filed with the U.S. Court of Appeals for the Ninth Circuit Court, which could result in a remand and potential changes to the IOU Exchange Benefit Amounts to be provided to the IOU customers. BPA believes it is likely that the agreements will be sustained.

Conservation and Fish and Wildlife Projects

The conservation projects consist of BPA power resource acquisitions resulting from funded customer investment in conservation measures. The fish and wildlife projects consist of facilities funded by BPA for the protection of fish and wildlife, and the mitigation of losses attributed to the development and operation of hydroelectric projects on the Columbia River and its tributaries pursuant to Section 4(h) of the Pacific Northwest Electric Power Planning and Conservation Act, 16 U.S.C. 839. BPA pays for the facilities and recovers the costs in rates but does not retain ownership of the facilities. Amortization of capitalized conservation and fish and wildlife costs is computed on a straight-line method based on estimated service lives, which are up to 20 years for conservation and 15 years for fish and wildlife.

Other Regulatory Assets

Other regulatory assets consist of settlement agreements resulting from terminated power purchase and sale contracts for which costs will be recovered in power rates; bond premiums amortized over the life of the new debt instruments; deferred contributions for under-funded post retirement benefit programs; and intangible conservation measures for which there is an offsetting liability on the balance sheet as these amounts will be collected in future rates.

7. Inventory, Net

Inventory includes stockpile materials consisting of crude oil held in the Strategic Petroleum Reserve, the Northeast Home Heating Oil Reserve, nuclear materials, highly enriched uranium, and other inventory consisting primarily of operating materials and supplies.

Strategic Petroleum Reserve

The Strategic Petroleum Reserve consists of crude oil stored in salt domes, terminals, and pipelines. As of September 30, 2005 and September 30, 2004, the Reserve contained crude oil with a historical cost of $19,237 million (unaudited) and $18,071 million, respectively. The reserve provides a deterrent to the use of oil as a political instrument and provides an effective response mechanism should a disruption occur. Oil from the reserve may be sold only with the approval of Congress and the President of the United States. Included in the Strategic Petroleum Reserve is crude oil held for future Department of Defense (DOD) use. The FY 1993 Defense Appropriations Act authorized the Department to acquire, transport, store, and prepare for ultimate drawdown of crude oil for DOD. The crude oil purchased with DOD funding is commingled with the Department's stock and is valued at its historical cost of $106 million as of September 30, 2005 (unaudited) and 2004 (see Notes 2 and 13).

In August 2005, Hurricane Katrina hit the Gulf Coast near the Louisiana/Mississippi border. Although the Strategic Petroleum Reserve storage facilities were unaffected, its leased office facilities in the New Orleans area were evacuated and remained inactive until October 2005. Because of the disruption to crude oil supplies, the Department responded by entering into exchange agreements for the delivery of crude oil to affected companies. To further address the supply disruption, the President ordered a drawdown of the Reserve, resulting in the competitive sale of 11 million barrels in September 2005 (unaudited).

Northeast Home Heating Oil Reserve

The Northeast Home Heating Oil Reserve was established in FY 2000 pursuant to the Energy Policy and Conservation Act. As of September 30, 2005 (unaudited) and 2004, the reserve contained petroleum distillate in the New England, New York, and New Jersey geographic area valued at its historical cost of $77 million.

Nuclear Materials

Nuclear materials include weapons and related components, including those in the custody of the Department of Defense under Presidential Directive, and materials used for research and development purposes. Certain surplus plutonium carried at zero value (a provision for disposal is included in environmental liabilities) has significant arms control and nonproliferation value and is instrumental to the U.S in ensuring that Russia continues toward the disposition of its weapons grade plutonium.

The Office of Nuclear Energy, Science and Technology has inventories amounting to a total of 18,850 (unaudited) metric tons of uranium hexafluoride. This total is segmented into three separate stockpiles. First, the Department in 1996 received from USEC a transfer of 5,521 metric tons of uranium associated with the natural uranium component of low-enriched uranium delivered under the U.S. and Russia HEU Agreement in 1995 and 1996. Only 2,388 (unaudited) metric tons remain in the Department's inventories because 2,228 metric tons were transferred consistent with section 3112 of the USEC Privatization Act between 1996 and 2001, and 905 (unaudited) metric tons were transferred to USEC for sale in FY 2005.

The second stockpile of uranium, amounting to 11,000 metric tons, was purchased from Russia for $325 million consistent with P.L. 105-277. This material is the natural uranium component of low enriched uranium delivered under the U.S. and Russia HEU Agreement in 1997 and 1998. Final disposition of the material will not occur until after 2009 based upon an international agreement between the U.S. and Russia that requires the Department to maintain a 22,000 metric ton stockpile, and restricts the entry of the uranium into the commercial market until 2009. The remaining uranium inventory stockpile of 5,462 (unaudited) metric tons is also restricted from sale into the commercial market until 2009. Sampling and analysis indicates that a portion of the Department's stockpile of uranium hexafluoride may have technetium exceeding nuclear fuel specifications. Based on current market data, the carrying value of this material is not impaired as of September 30, 2005 (unaudited).

The nuclear materials inventory includes numerous items for which future use and disposition decisions have not been made. Decisions for most of these items will be made through analysis of the economic benefits and costs, and the environmental impacts of the various use and disposition alternatives. The carrying value of these items is not significant to the nuclear materials stockpile inventory balance. The Department will recognize disposition liabilities and record the material at net realizable value when disposal as waste is identified as the most likely alternative and disposition costs can be reasonably estimated. Inventory values are reduced by costs associated with decay or damage.

Highly Enriched Uranium

The Nuclear Weapons Council declared in December 1994, leading to the Secretary of Energy's announcement in February 1996, that 174.3 metric tons of the Department's highly enriched uranium (HEU) were excess to national security needs. Most of this material will be blended for sale as low-enriched uranium (LEU) and used over time as commercial nuclear reactor fuel to recover its value. The remaining portion of the material is already in the form of irradiated fuel or other waste forms, which require no processing prior to disposal. A provision for disposal of irradiated fuel is included in environmental liabilities. The carrying value of HEU for which the LEU blending product will have levels of contamination exceeding nuclear fuel specifications has been reduced to zero. A disposition liability for the estimated costs to process this "off-spec" material is included in environmental liabilities. Most of the "off-spec" material will be blended to LEU for use in Tennessee Valley Authority nuclear power reactors. Estimates of revenues and processing costs for surplus HEU were updated during FY 2005 (unaudited). Net revenues from sales of the remaining surplus HEU are expected to exceed the carrying value of the surplus HEU.

8. General Property, Plant and Equipment, Net

(in millions)

	FY 2005 (unaudited)			FY 2004		
	Acquisition Costs	Accumulated Depreciation	Net Book Value	Acquisition Costs	Accumulated Depreciation	Net Book Value
Land and land rights	$ 1,506	$ (729)	$ 777	$ 1,530	$ (758)	$ 772
Structures and facilities	33,543	(21,937)	11,606	32,402	(21,736)	10,666
Internal use software	419	(149)	270	381	(130)	251
Equipment	15,203	(10,322)	4,881	14,496	(9,928)	4,568
Natural resources	65	(9)	56	65	(9)	56
Construction work in process	5,600	-	5,600	6,020	-	6,020
Total property, plant and equipment	**$ 56,336**	**$ (33,146)**	**$ 23,190**	**$ 54,894**	**$ (32,561)**	**$ 22,333**

9. Other Non-Intragovernmental Assets

(in millions)

	FY 2005 (unaudited)	FY 2004
Purchased generating capability	$ 2,389	$ 2,368
Prepaid pension plan costs (Note 15)	1,260	1,892
Oil due from others	224	200
Prepayments	321	331
Other	397	492
Total other non-intragovernmental assets	**$ 4,591**	**$ 5,283**

Purchased Generating Capability

Through contracts, BPA has acquired all or part of the generating capability of a nuclear power plant and several hydroelectric projects. The contracts require BPA to pay operating expenses and debt service for these facilities. The *Consolidated Balance Sheets* include an offsetting related debt for these amounts.

Oil Due from Others

The Department has a Royalty-In-Kind exchange arrangement with the Department of the Interior's Mineral Management Service (MMS) to receive crude oil from Gulf of Mexico Federal offshore leases. The oil from the MMS offshore leases was exchanged for other crude oil (exchange oil) of differing quality to be delivered to the Strategic Petroleum Reserve. As a result of companies deferring the delivery of some of the exchange oil, the Department earned additional oil as a premium. All Royalty-In-Kind exchange oil has been received as of September 30, 2005 (unaudited).

Due to Hurricane Katrina, the Strategic Petroleum Reserve contracted with six oil companies to loan oil in exchange for the return of contracted plus premium barrels related to the exchange. As of September 30, 2005 (unaudited), oil valued at $196 million has been delivered. The value of the premium barrels due was $19.3 million as of September 30, 2005 (unaudited).

10. Liabilities Not Covered By Budgetary Resources

(in millions)

	FY 2005 (unaudited)	FY 2004
Intragovernmental		
Debt (Note 11)	$ 9,958	$ 10,468
Other	15	15
Total intragovernmental	$ 9,973	$ 10,483
Debt (Note 11)	6,574	6,531
Deferred revenues (Note 12)		
Nuclear Waste Fund	19,564	18,145
Occupational illness program - Subtitle D (Note 13)	-	810
Environmental liabilities (Note 14)	187,784	179,005
Pension and other actuarial liabilities (Note 15)	11,727	10,530
Other liabilities		
Environment, safety and health compliance activities (Note 13)	1,164	1,180
Accrued annual leave for Federal employees	113	109
Other	350	250
Contingencies and Commitments (Note 16)	5,058	1,943
Total liabilities not covered by budgetary resources	$ 242,307	$ 228,986
Total liabilities covered by budgetary resources	10,209	10,725
Total liabilities	**$ 252,516**	**$ 239,711**

11. Debt

(in millions)

	FY 2005 (unaudited)			FY 2004		
	Beginning Balance	Net Borrowings	Ending Balance	Beginning Balance	Net Borrowings	Ending Balance
Intragovernmental						
Borrowing from Treasury	$ 2,900	$ (123)	$ 2,777	$ 2,698	$ 202	$ 2,900
Appropriated capital	3,111	(139)	2,972	2,906	205	3,111
Refinanced appropriations	2,401	(182)	2,219	2,715	(314)	2,401
Capitalization adjustment	2,056	(66)	1,990	2,125	(69)	2,056
Subtotal	$ 10,468	$ (510)	$ 9,958	$ 10,444	$ 24	$ 10,468
Debt Held by the Public						
Non-Federal projects	6,531	43	6,574	6,443	88	6,531
Total debt	**$ 16,999**	**$ (467)**	**$ 16,532**	**$ 16,887**	**$ 112**	**$ 16,999**

Borrowing from Treasury

To finance its capital programs, BPA is authorized by Congress to issue to Treasury up to $4,450 million of interestbearing debt with terms and conditions comparable to debt issued by U.S. Government corporations. A portion ($1,250 million) is reserved for conservation and renewable resource loans and grants. As of September 30, 2005 (unaudited), of the total $2,777 million of outstanding debt, $780 million were conservation and renewable resource loans and grants (including Corps, Bureau of Reclamation and U.S. Fish and Wildlife capital investments). The weighted average interest rates for Treasury borrowings as of September 30, 2005 (unaudited) and 2004, were 4.76 percent and 4.87 percent, respectively. The average interest rate of BPA's borrowings from the Treasury exceeds the rate that could be obtained currently. As a result, the fair value of BPA's long-term debt, based on discounting future cash flows using rates offered by Treasury as of September 30, 2005 (unaudited) and 2004, for similar maturities, exceeds carrying value by approximately $169 million and $224 million, respectively. BPA's policy is to refinance debt that is callable when associated benefits exceed costs of refinancing.

Appropriated Capital

Appropriated capital owed represents the balance of appropriations provided to the Department's power marketing administrations for construction and operation of power projects which will be repaid to Treasury's General Fund and the Department of the Interior's (Interior) Reclamation Fund. The amount owed also includes accumulated interest on the net unpaid Federal investment in the power projects. The Federal investment in these facilities is to be repaid within 50 years from the time the facilities are placed in service or are commercially operational. Replacements of Federal investments are generally to be repaid over their expected useful service lives. There is no requirement for repayment of a specific amount of Federal investment on an annual basis.

Each of the power marketing administrations, except BPA, receives an annual appropriation to fund operation and maintenance expenses. These appropriated funds are repaid to the General Fund of the Treasury and Interior from the revenues generated from the sale of power and transmission services. To the extent that funds are not available for payment, such unpaid annual net deficits become payable from the subsequent years' revenues prior to any repayment of Federal investment. The Department treats these appropriations as a borrowing from the General Fund of the Treasury and Interior, and as such, the *Consolidated Statements of Changes in Net Position* do not reflect these funds as appropriated capital used.

Except for the appropriation refinancing asset described in Note 6 and in the next paragraph, the Department's financial statements do not reflect the Federal investment in power generating facilities owned by the Department of Defense, Army Corps of Engineers; the Department of the Interior, Bureau of Reclamation; and the Department of State, International Boundary and Water Commission. The Department's power marketing administrations are responsible for collecting, and remitting to Treasury, revenues resulting from the sale of hydroelectric power generated by these facilities (see Note 24).

Refinanced Appropriations

As discussed in Note 6, BPA refinanced its unpaid capital appropriations as of September 30, 1996. The weighted average interest rate on outstanding appropriations was 6.7 percent as of September 30, 2005 (unaudited) and 7.0 percent as of September 30, 2004. The remaining period of repayment on refinanced appropriations is 31 years. Repayment amounts were determined based on the date the respective facilities were placed in service using the weighted average service lives of the associated investments, not to exceed 50 years. BPA repays amounts owed to the General Fund of the Treasury and Interior's Reclamation Fund.

Capitalization Adjustment

The amount of appropriations refinanced as a result of the BPA Appropriations Refinancing Act of 1996 was $6.6 billion. After refinancing, the appropriations outstanding were $4.1 billion. The difference between the appropriated debt before and after the refinancing was recorded as a capitalization adjustment. This adjustment is being amortized over 40 years of which 31 years remain. Amortization of the capitalization adjustment was $66 million during FY 2005 (unaudited) and $69 million during FY 2004. The weighted average interest rate was 6.7 percent as of September 30, 2005 (unaudited) and 7.0 percent as of September 30, 2004.

Non-Federal Projects

As discussed in Notes 6 and 9, the non-Federal projects debt represents BPA's liability to pay all or part of the annual budgets, including debt service, of the generating capability of five operating and nonoperating nuclear power plants as well as several hydroelectric projects.

The following table summarizes future principal payments required for the debt described above (unaudited):

(in millions)

Fiscal Year	Borrowing from Treasury	Appropriated Capital	Refinanced Appropriations	Capitalization Adjustment	Non-Federal Projects
2006	$ 565	$ 3	$ 16	$ 65	$ 208
2007	556	4	24	65	296
2008	515	8	11	65	308
2009	190	13	10	65	312
2010	90	12	26	65	364
2011+	861	2,932	2,132	1,665	5,086
Total	**$2,777**	**$ 2,972**	**$ 2,219**	**$ 1,990**	**$ 6,574**

12. Deferred Revenues and Other Credits

(in millions)

	FY 2005 (unaudited)	FY 2004
Intragovernmental	$ 125	$ 149
Non-intragovernmental		
Nuclear Waste Fund (Note 10)	$ 19,564	$ 18,145
Power marketing administrations	1,812	1,895
Reimbursable work advances	168	183
Other	48	12
Subtotal	$ 21,592	$ 20,235
Total deferred revenues and other credits	**$ 21,717**	**$ 20,384**

Nuclear Waste Fund

NWF revenues are accrued based on fees assessed against owners and generators of high-level radioactive waste and spent nuclear fuel and interest accrued on investments in Treasury securities. These revenues are recognized as a financing source as costs are incurred for NWF activities. Annual adjustments are made to defer revenues that exceed the NWF expenses.

Power Marketing Administrations

The power marketing administrations' deferred revenues primarily represent amounts paid to BPA from participants under various alternating current intertie capacity agreements, various customer reimbursable projects, and load diversification fees paid to BPA by various customers. These one-time payments cover the remaining term of the customer's existing contractual agreement and are recognized as revenues as contract commitments are satisfied. Also included in Deferred Revenues and Other Credits is BPA's offset to IOU Exchange Benefits (see Note 6).

13. Other Liabilities

(in millions)

	FY 2005 (unaudited)	FY 2004
Intragovernmental		
Oil held for Department of Defense (Notes 2 and 7)	$ 106	$ 106
Other	63	156
Total other intragovernmental liabilities	$ 169	$ 262
Non-intragovernmental		
Environment, safety and health compliance activities (Notes 10 and 23)	$ 1,164	$ 1,180
Occupational illness program - Subtitle D and E (Notes 10, 20 and 23)	-	810
Accrued payroll and benefits	923	961
Petroleum Pricing Violation Escrow Fund (Note 2)	511	523
Naval Petroleum Reserve Deposit Fund (Note 2)	323	323
Elk Hills School Lands Fund (Note 2)	82	118
Other	661	452
Subtotal	$ 3,664	$ 4,367
Total other liabilities	**$ 3,833**	**$ 4,629**

Environment, Safety and Health Compliance Activities

The Department's environment, safety, and health liability represents those activities necessary to bring facilities and operations into compliance with existing environmental safety and health (ES&H) laws and regulations (e.g., Occupational Safety and Health Act; Clean Air Act; Safe Drinking Water Act). Types of activities included in the estimate relate to the following: upgrading site-wide fire and radiological programs; nuclear safety upgrades; industrial hygiene and industrial safety; safety related maintenance; emergency preparedness programs; life safety code improvements; and transportation of radioactive and hazardous materials. The estimate covers corrective actions expected to be performed in future years for programs outside the purview of the Department's Environmental Management (EM) Program. ES&H activities within the purview of the EM program are included in the environmental liability estimate. The FY 2005 (unaudited) change in the ES&H liability is due to (1) additional corrective actions, activities, or programs that are required to improve the facilities' state of compliance and move them toward full compliance, or conformance with all applicable ES&H laws, regulations, agreements, and the Department's orders; (2) revised cost estimates for existing ES&H activities; and (3) costs of work performed during the year.

Compensation Program for Occupational Illnesses

The Energy Employees Occupational Illness Compensation Program Act of 2000 (EEOICPA), authorized benefits to eligible employees of the Department, its predecessor agencies, and contractors who developed work-related illnesses as a result of exposure to radiation and toxic substances. Under the previous Subtitle D, the Department had provided assistance obtaining state workers' compensation benefits. The National Defense Authorization Act for Fiscal Year 2005, enacted in October 2004, clarified the amounts payable under the program, which is now administered by the Department of Labor (DOL) under a new Subtitle E of the Compensation Act. This amendment replaces Subtitle D of the EEOICPA and the new program grants worker's compensation benefits to covered employees and their families for illness and death arising from exposure to toxic substances at a DOE facility. Using estimates developed by the Congressional Budget Office, the Department recorded a liability for the program during FY 2004 and transferred the liability to the DOL during FY 2005 (unaudited).

Accrued Payroll and Benefits

Accrued payroll and benefits represent amounts owed to the Department's Federal and contractor employees.

Elk Hills School Lands Fund

This balance represents the portion of the Naval Petroleum Reserve at Elk Hills' sales proceeds being retained for future disbursements to the State of California pending authorization of the Congress. In FY 2005 (unaudited) and FY 2004, the Department made a $36 million payment pursuant to a legislative directive.

Other Liabilities

This balance consists primarily of liabilities associated with other deposit funds, suspense accounts, receipts due to Treasury, and contract advances.

14. Environmental Liabilities

(in millions)

	FY 2005 (unaudited)	FY 2004
Environmental Management Program	$ 121,411	$ 117,052
Legacy environmental liabilities - other	17,465	17,822
Total legacy environmental liabilities	$ 138,876	$ 134,874
Active and surplus facilities	25,972	25,823
High-level waste and spent nuclear fuel disposition	15,059	14,942
Other	9,803	6,103
Total environmental liabilities	$ 189,710	$ 181,742
Amount funded by current appropriations	(1,926)	(2,737)
Total unfunded environmental and disposal liabilities	**$ 187,784**	**$ 179,005**
Changes in environmental liabilities		
Total environmental liabilities, beginning balance	$ 181,742	$ 183,434
Changes to environmental liability estimates		
Legacy environmental liabilities	11,757	4,990
Active and surplus facilities	280	418
High-level waste and spent nuclear fuel disposition	380	391
Other	4,102	212
Total changes in estimates (Notes 20 and 23)	$ 16,519	$ 6,011
Operating expenditures related to remediation activities (Note 19)	(6,637)	(6,667)
Capital expenditures related to remediation activities	(1,914)	(1,036)
Total environmental and disposal liabilities	**$ 189,710**	**$ 181,742**

During World War II and the Cold War, the United States developed a massive industrial complex to research, produce, and test nuclear weapons. The nuclear weapons complex included nuclear reactors, chemical processing buildings, metal machining plants, laboratories, and maintenance facilities that manufactured tens of thousands of nuclear warheads and conducted more than one thousand nuclear explosion tests.

At all sites where these activities took place, some environmental contamination occurred. This contamination was caused by the production, storage, and use of radioactive materials and hazardous chemicals, which resulted in contamination of soil, surface water, and groundwater. The environmental legacy of nuclear weapons production also includes thousands of contaminated buildings and large volumes of waste and special nuclear materials requiring treatment, stabilization, and disposal. Approximately one-half million cubic meters of radioactive high-level, mixed, and low-level wastes must be stabilized, safeguarded, and dispositioned, including a quantity of plutonium sufficient to fabricate thousands of nuclear weapons.

Assumptions and Uncertainties

Estimating the Department's environmental cleanup liability requires making assumptions about future activities and is inherently uncertain. The future course of the Department's environmental management program will depend on a number of fundamental technical and policy choices, many of which have not been made. The cost and environmental implications of alternative choices can be profound. For example, many contaminated sites and facilities could be restored to a condition suitable for any desired use; they could also be restored to a point where they pose no near-term health risks to surrounding communities but are essentially surrounded by fences and left in place. Achieving the former conditions would have a higher cost but may, or may not, warrant the costs and potential ecosystem disruption, or be legally required. The baseline estimates reflect applicable local decisions and expectations as to the extent of cleanup and site and facility reuse, which include consideration of Congressional mandates, regulatory direction, and stakeholder input.

The environmental liability estimates are dependent on annual funding levels and achievement of work as scheduled. Higher funding tends to accelerate cleanup work and reduce cleanup costs; lower funding tends to delay work and increase costs. Congressional appropriations at lower than anticipated levels or unplanned delays in project completion would cause increases in life-cycle costs. The environmental liability estimates include contingency estimates intended to account for the uncertainties associated with the technical cleanup scope of the program.

The liabilities as of September 30, 2005 (unaudited) and 2004, are stated in FY 2005 dollars and FY 2004 dollars, respectively, as required by generally accepted accounting standards for Federal entities. Future inflation could cause actual costs to be substantially higher than the recorded liability.

In July 2004, the U.S. Court of Appeals in Washington, D.C. vacated a standard promulgated by the Environmental Protection Agency for the protection of the environment from offsite releases of radioactive material from the Yucca Mountain repository. The EPA standard required the Department to limit offsite releases from the repository for 10,000 years. The Court held that EPA violated the Energy Policy Act of 1992, which required the agency to issue standards for Yucca Mountain based upon and consistent with findings by the National Academy of Sciences, whose report issued in 1995 stated that the radiation hazard from the repository might continue for a much longer period. EPA issued a revised standard for comment in August 2005, and in September 2005 the Nuclear Regulatory Commission issued a draft rule that incorporates the revised EPA standard. The ability of the repository to mitigate radiation hazards is one of the criteria that the NRC will consider in its evaluation of a license application for the repository. Challenges to the revised standard could delay the Department's filing of a repository license application and, consequently, delay the opening of the repository.

Components of the Liability

Environmental Management Program Estimates

EM is responsible for managing the legacy of contamination from the nuclear weapons complex. As such, EM manages thousands of contaminated facilities formerly used in the nuclear weapons program, oversees the safe management of vast quantities of radioactive waste and nuclear materials, and is responsible for the cleanup of large volumes of contaminated soil and water. The FY 2005 EM life-cycle cost estimate (unaudited) reflects a strategic vision to complete this cleanup mission by 2035. This strategy provides for a site-by-site projection of the work required to complete all EM projects, while complying with regulatory agreements, statutes, and regulations. Each project baseline estimate includes detailed projections of the technical scope, schedule, and costs at each site for the cleanup of contaminated soil, groundwater, and facilities; treating, storing, and disposing of wastes; and managing nuclear materials. The baseline estimates also include costs for related activities such as landlord responsibilities, program management, and legally prescribed grants and cooperative agreements for participation and oversight by native American tribes, regulatory agencies, and other stakeholders.

Over the past several years a number of management reforms have been implemented within the EM program. These reforms include: 1) redefining and aligning acquisition strategies, 2) instituting robust project management practices and procedures in executing the cleanup program, and 3) implementing a strict configuration control system for key management parameters of the cleanup program. In FY 2005 (unaudited), progress towards improving efficiency and management of the program continued. Field offices have prepared technical baselines that describe in detail the activities, schedule, and resources required to complete the EM cleanup mission at the respective sites. In addition, EM has implemented an earned value management reporting system to ensure that cleanup progress remains on schedule and within budget. Achievement of accelerated cleanup goals is largely contingent upon receipt of funding, yet to be approved by Congress, during FY 2006 and succeeding years. In addition to the assumptions and uncertainties discussed above, the following key assumptions and uncertainties relate to the EM baseline estimates:

- The Department has identified approximately 10,400 potential release sites from which contaminants could migrate into the environment. Although virtually all of these sites have been at least partially characterized, final remedial action and regulatory decisions have not been made for many sites. Site-specific assumptions regarding the amount and type of contamination and the remediation technologies that will be utilized were used in estimating the environmental liability related to these sites.

- Cost estimates for management of the Department's high-level waste are predicated upon assumptions as to the timing and rate of acceptance of the waste by the first geological repository. Delays in opening the repository could cause EM project costs to increase.

- Estimates are based on remedies considered technically and environmentally reasonable and achievable by local project managers and appropriate regulatory authorities.

- Estimated cleanup costs at sites for which there is no current feasible remediation approach are excluded from the baseline estimates, although applicable stewardship and monitoring costs for these sites are included. The cost estimate would be higher if some remediation were assumed for these areas. However, because the Department has not identified effective remedial technologies for these sites, no basis for estimating costs is available. An example of a site for which cleanup costs are excluded is the nuclear explosion test area at the Nevada Test Site.

- The Low-Level Radioactive Waste Policy Amendments Act of 1985 assigned responsibility to the Department for the disposal of certain low-level wastes, generated by the Department and others, that are not suitable for nearsurface disposal. The Department has not determined a disposal path and has therefore included only storage and monitoring costs for these wastes in the liability. The disposal costs for these wastes are not expected to be material in relation to the Department's environmental liabilities.

Changes to the EM baseline estimates during FY 2005 (unaudited) and FY 2004 resulted from inflation adjustments to reflect constant dollars for the current year; improved and updated estimates for the same scope of work; revisions in acquisition strategies, technical approach or scope; regulatory changes; cleanup activities performed; additional scope and transfers out of the EM baseline estimates; and additions for facilities transferred from the active and surplus category discussed below.

Legacy Environmental Liabilities - Other

These liabilities are comprised of the estimated cleanup and post-closure responsibilities, including surveillance and monitoring activities, soil and groundwater remediation, and disposition of excess materials for sites after the EM program activities have been completed. The costs for these post-closure activities are estimated for a period of 75 years, i.e., through 2080. Some post-cleanup monitoring and other long-term stewardship activities are expected to continue beyond 2080, but the Department believes the costs of these activities cannot reasonably be estimated.

Active and Surplus Facilities

This liability includes anticipated remediation costs for active and surplus facilities managed by the Department's ongoing program operations and which will ultimately require stabilization, deactivation, and decommissioning. The estimate is largely based upon a cost-estimating model which extrapolates stabilization, deactivation, and decommissioning costs from facilities included in the EM baseline estimates to those active and surplus facilities with similar characteristics. Site-specific estimates are used when available. Cost estimates for active and surplus facilities are updated each year to reflect current year constant dollars; the transfer of cleanup and management responsibilities for these facilities by other programs to EM, as discussed above; changes in facility size or contamination assessments; and estimated cleanup costs for newly contaminated facilities. For facilities newly contaminated since FY 1997, cleanup costs allocated to future periods and not included in the liability amounted to $440 million at September 30, 2005 (unaudited) and $357 million at September 30, 2004.

High-Level Waste and Spent Nuclear Fuel Disposition

The Nuclear Waste Policy Act of 1982 established the Department's responsibility to provide for permanent disposal of the Nation's high-level radioactive waste and spent nuclear fuel. The Act requires all owners and generators of high-level nuclear waste and spent nuclear fuel, including the Department, to pay their respective shares of the full cost of the program. To that end, the Act establishes a fee on owners and generators that the Department must collect and annually assess to determine its adequacy. The Department's liability reflects its share of the estimated future costs of the program based on its inventory of high-level waste and spent nuclear fuel, plus the unfunded portion of actual costs incurred to date and the accrued interest on the unfunded costs. The Department's liability does not include the portion of the cost attributable to other owners and generators.

Changes to the high-level waste and spent nuclear fuel disposition liability during FY 2005 (unaudited) and FY 2004 resulted from inflation adjustments to reflect current year constant dollars, revisions in technical approach or scope, changes in the Department's allocable percentage share of future costs, and actual costs incurred by the Department that were allocated to the Department's share of the liability.

Other Environmental Liabilities

Other environmental liabilities consist of liabilities for disposition of surplus plutonium, depleted uranium, and highly enriched uranium. The liability for disposition of surplus plutonium was increased in FY 2005 (unaudited) due to program delays imposed by running the program in parallel with the Russian program (see Note 7) and facility redesign.

15. Pension and Other Actuarial Liabilities

(in millions)

	FY 2005 (unaudited)	FY 2004
Contractor pension plans	$ 2,563	$ 1,939
Contractor postretirement benefits other than pensions	9,041	8,471
Contractor disability and life insurance plans	24	25
Federal Employees' Compensation Act	99	95
Total pension and other actuarial liabilities	**$ 11,727**	**$ 10,530**

Most of the Department's contractors have defined benefit pension plans under which they promise to pay specified benefits to their employees, such as a percentage of the final average pay for each year of service. The Department's cost under the contracts includes reimbursement of annual contractor contributions to these pension plans. The Department's contractors also sponsor postretirement benefits other than pensions (PRB) consisting of predominantly postretirement health care benefits. The Department approves the contractors' pension and postretirement benefit plans and is ultimately responsible for the allowable costs of funding the plans.

The Department reimburses its major contractors for employee disability insurance plans, and estimates are recorded as unfunded liabilities for these plans.

Contractor Pension Plans

The Department follows SFAS No. 87, *Employers' Accounting for Pensions,* for contractor employees for whom the Department has a continuing pension obligation. As of September 30, 2005, (unaudited) the measurement date, the Department has prepaid pension costs of $1,536 million before minimum liability adjustment and $1,254 million after minimum liability adjustment; and accrued pension costs of $1,298 million before minimum liability adjustment and $2,563 million after minimum liability adjustment. The Department has a continuing obligation for a variety of contractor-sponsored pension plans (39 qualified and 6 nonqualified). In this regard, benefit formulas consist of final average pay (30 plans), career average pay (8 plans), dollar per month of service (6 plans), and one defined contribution plan with future contributions for retired employees. Sixteen of the plans cover nonunion employees only; 9 cover union employees only; and 20 cover both union and nonunion employees.

For qualified plans, the Department's current funding policy is for contributions made to a trust during a plan year for a separate defined benefit pension plan to not exceed the greater of: (1) the minimum contribution required by Section 302 of the Employee Retirement Income Security Act (ERISA) or (2) the amount estimated to eliminate the unfunded current liability as projected to the end of the plan year. The term "unfunded current liability" refers to the unfunded current liability as defined in Section 302(d)(8) of ERISA. For nonqualified plans, the funding policy is pay-as-you-go.

Plan assets generally include cash and equivalents, stocks, corporate bonds, government bonds, real estate, venture capital, international investments, and insurance contracts. There are three plans that have securities of the employer or related parties included in the plan assets. The total amount invested in such securities is $3 million.

Assumptions and Methods - In order to provide consistency among the Department's various contractors, certain standardized actuarial assumptions were used. These standardized assumptions include the discount rates, mortality assumptions, and an expected long-term rate of return on plan assets, salary scale, and any other economic assumption consistent with an expected long-term inflation rate of 3.0 percent for the entire U.S. economy with adjustments to reflect regional or industry rates as appropriate. In most cases, ERISA valuation actuarial assumptions for demographic assumptions were used.

The following specific assumptions and methods were used to determine the net periodic pension cost. The weighted average discount rate was 5.75 percent for FY 2005 (unaudited) and 6.00 percent for FY 2004; the average long-term rate of return on assets was 7.88 percent in FY 2005 (unaudited) and 7.77 percent in FY 2004; and the average rate of compensation increase was 4.4 percent in both FY 2005 (unaudited) and FY 2004. The average long-term rate of return on assets shown above is the average rate for all of the contractor plans. Each contractor develops its own average long-term rate of return on assets based on the specific investment profile of the specific plans it sponsors. Therefore, there is no one overall approach to setting the rate of return for all of the contractors' plans.

The weighted average discount rates used to determine the benefit obligations as of September 30, 2005 (unaudited) and 2004 were 5.25 percent and 5.75 percent, respectively.

Straight line amortization of unrecognized prior service cost over the average remaining years of service of the active plan participants and the minimum amortization of unrecognized gains and losses were used. The transition obligation was amortized over the greater of 15 years or the average remaining service.

Contractor Postretirement Benefits Other Than Pensions

The Department follows SFAS No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, for contractor employees for whom the Department has a continuing obligation. SFAS No. 106 requires that the cost of PRB be accrued during the years that the employees render service. As of September 30, 2005 (unaudited) and 2004, the measurement dates, the Department has an accrued PRB liability of $9,041 million and $8,471 million, respectively. Generally, the PRB plans are unfunded, and the Department's funding policy is to fund on a pay-as-you-go basis. There are six contractors, however, that are prefunding benefits in part as permitted by law. The Department's contractors sponsor a variety of postretirement benefits other than pensions. Benefits consist of medical (39 contractors), dental (19 contractors), life insurance (22 contractors), and Medicare Part B premium reimbursement (4 contractors). Thirty-eight of the contractors sponsor a traditional indemnity plan, a PPO, an HMO, or similar plan. Seventeen of these also have a point of service plan, an HMO, or similar plan. One additional contractor has only a point of service plan, an HMO, or similar plan.

Assumptions and Methods - In order to provide consistency among the Department's various contractors, certain standardized actuarial assumptions were used. These standardized assumptions include medical and dental trend rates, discount rates, and mortality assumptions.

The following specific assumptions and methods were used in determining the PRB estimates. The medical trend rates for a point of service plan, an HMO, a PPO, or similar plan, grade from 10.0 percent in 2005 (unaudited) down to 5.5 percent in 2013 and later. The medical trend rates for a traditional indemnity plan, or similar plan, grade from 11.0 percent in 2005 (unaudited) down to 5.5 percent in 2013 and later. The dental trend rates at all ages grade down from 7.0 percent in 2005 (unaudited) to 5.0 percent in 2013 and later.

The weighted average discount rates of 5.75 percent for FY 2005 (unaudited) and 6.00 percent for FY 2004, and the average long-term rate of return on assets of 6.58 percent in both FY 2005 (unaudited) and FY 2004 were used to determine the net periodic postretirement benefit cost. The rate of compensation increase was the same rate as each contractor used to determine pension contributions. The average long-term rate of return on assets shown above is the average rate for all of the contractor plans. Each contractor develops its own average long-term rate of return on assets based on the specific investment profile of the specific plans it sponsors. Therefore, there is no one overall approach to setting the rate of return for all of the contractors' plans.

The weighted average discount rates used to determine the benefit obligation as of September 30, 2005 (unaudited) and 2004 were 5.25 percent and 5.75 percent respectively.

Straight line amortization of unrecognized prior service cost over the average remaining years of service to full eligibility for benefits of the active plan participants and the minimum amortization of unrecognized gains and losses were used. The Department chose immediate recognition of the transition obligation existing at the beginning of FY 1994.

On December 8, 2003, the President signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003. The law provides for a Federal subsidy to sponsors of retiree healthcare benefit plans that provide a benefit at least actuarially equivalent to the benefit established by the law. On January 21, 2005, the Centers for Medicare and Medicaid Services (CMS) issued final regulations implementing the requirements of the Act. There are currently 28 contractors that have concluded that their plans are at least actuarially equivalent. There are 6 plans that do not benefit retirees over 65 and 4 plans have determined they are not actuarially equivalent. These ten plans have not reflected any change due to the Act. One plan is unable at this time to determine the effect of the Act.

	Pension Benefits		Other Postretirement Benefits	
(in millions, unaudited)	FY 2005 (unaudited)	FY 2004	FY 2005 (unaudited)	FY 2004
Reconciliation of funded status				
Accumulated benefit obligation	$ 24,656	$ 21,700		
Effect of future compensation increases	4,054	3,797		
Benefit obligation	$ 28,710	$ 25,497	$ 11,591	$ 10,070
Plan assets	22,990	21,380	157	158
Funded status	$ (5,720)	$ (4,117)	$ (11,434)	$ (9,912)
Unrecognized net (asset)/obligation at transition	(626)	(749)		
Unrecognized prior service cost	938	962	(290)	(367)
Unrecognized actuarial loss	5,646	4,752	2,689	1,813
Net amount recognized	$ 238	$ 848	$ (9,035)	$ (8,466)
Minimum liability adjustment	(1,547)	(900)	-	-
Prepaid/(accrued) benefit cost after minimum liability	$ (1,309)	$ (52)	$ (9,035)	$ (8,466)
Total prepaid benefit cost after minimum liability	1,254	1,887	6	5
Total (accrued) benefit cost after minimum liability	$ (2,563)	$ (1,939)	$ (9,041)	$ (8,471)
Components of net periodic costs				
Service costs	$ 803	$ 749	$ 255	$ 236
Interest costs	1,447	1,394	580	561
Expected return on plan assets	(1,625)	(1,519)	(11)	(11)
Net amortization	235	274	39	55
Impact of curtailment or special termination benefits	26	9	17	(2)
Total net periodic costs	$ 886	$ 907	$ 880	$ 839
Contributions and benefit payments				
Employer contributions	$ 271	$ 279	$ 306	$ 342
Participant contributions	3	3	64	59
Benefit payments	1,069	986	383 *	412 *

* Includes $13 million paid from plan assets for FY 2005 (unaudited) and $11 million paid from plan assets for 2004.

(in millions, unaudited)	Pension Benefits	Other Postretirement Benefits
Expected contributions for fiscal year ending 9/30/2006		
Employer contributions	$451	$328
Participant contributions	3	71

(in millions, unaudited)	Pension Benefits	Other Postretirement Benefits
Estimated future benefit payments		
Fiscal Year 2006	$1,110	$377
Fiscal Year 2007	1,155	403
Fiscal Year 2008	1,209	439
Fiscal Year 2009	1,291	473
Fiscal Year 2010	1,379	510
Fiscal Years 2011 to 2015	8,430	3,091

The chart below shows the average target allocation for the 38 pension benefit plans and 6 other postretirement benefit plans with assets. The average actual fiscal year 2005 and 2004 allocations of assets are also shown.

Pension Benefits

Asset Category	Target Allocation	Percent of Plan Assets at September 30, 2005 (unaudited)	Percent of Plan Assets at September 30, 2004
Cash and equivalents	2.5%	3.0%	4.6%
Government bonds	12.5%	11.0%	9.2%
Corporate bonds	18.0%	15.7%	16.1%
Domestic equities	43.1%	45.5%	43.5%
International equities	9.6%	8.7%	9.5%
Real estate	1.3%	0.5%	1.0%
Insurance contracts (general accounts)	11.6%	11.9%	12.3%
Insurance contracts (separate accounts)	0.0%	2.6%	2.6%
Employer securities	0.2%	0.0%	0.2%
Other	1.2%	1.1%	1.0%
Total	100%	100%	100%

Other Postretirement Benefits

Asset Category	Target Allocation	Percent of Plan Assets at September 30, 2005 (unaudited)	Percent of Plan Assets at September 30, 2004
Cash and equivalents	0.0%	0.9%	1.0%
Government bonds	7.1%	11.0%	4.4%
Corporate bonds	0.0%	4.5%	0.0%
Domestic equities	12.0%	16.2%	14.6%
International equities	0.0%	0.0%	0.0%
Real estate	0.9%	0.7%	0.0%
Insurance contracts (general accounts)	60.0%	50.0%	60.0%
Insurance contracts (separate accounts)	0.0%	0.0%	0.0%
Employer securities	0.0%	0.0%	0.0%
Other	20.0%	16.7%	20.0%
Total	100%	100%	100%

16. Contingencies and Commitments

(in millions)

	FY 2005 (unaudited)	FY 2004
Spent nuclear fuel litigation	$ 5,000	$ 1,920
Other	58	23
Total contingencies and commitments	**$ 5,058**	**$ 1,943**

The Department is a party in various administrative proceedings, legal actions, and tort claims which may ultimately result in settlements or decisions adverse to the Federal Government. The Department has accrued contingent liabilities where losses are determined to be probable and the amounts can be estimated. Other significant contingencies exist where a loss is reasonably possible or where a loss is probable and an estimate cannot be determined. In some cases, a portion of any loss that may occur may be paid from Treasury's Judgment Fund (Judgment Fund). The Judgment Fund is a permanent, indefinite appropriation available to pay judgments against the Government for which the Department, unless required by law, is not required to reimburse from its appropriated funds. The following are significant contingencies:

- *Spent Nuclear Fuel Litigation* - In accordance with the Nuclear Waste Policy Act of 1982 (NWPA), the Department entered into contracts with more than 45 utilities in which, in return for payment of fees into the Nuclear Waste Fund, the Department agreed to begin disposal of spent nuclear fuel (SNF) by January 31, 1998. Because the Department has no facility available to receive SNF under the NWPA, the Department has been unable to begin disposal of the utilities' SNF as required by the contracts. Significant litigation claiming damages for partial breach of contract has ensued as a result of this delay.

  To date, four suits have been settled involving utilities that collectively produce about one-fifth of the nuclear-generated electricity in the United States. Under the terms of the settlement, the Treasury's Judgment Fund paid $80 million to the settling utilities for delay damages they have incurred through 2004 and will make annual payments to them for future costs as they are incurred. In addition, one case has been tried and a judgment entered (and subsequently affirmed on appeal) under which the utility was awarded no damages based on the court's finding that the utility had incurred no compensable costs as a result of the Government's delay as of the time of trial.

  Sixty cases remain pending in the Court of Federal Claims. Liability is probable in this matter, and in many of these cases orders have been entered establishing the Government's liability and the only outstanding issue to be litigated is ascertaining the amount of damages to be awarded. The industry is reported to estimate that damages for all utilities with which the Department has contracts ultimately will be at least $50 billion. The Department believes that the industry's estimate is highly inflated, and that the disposition of the five cases that have been resolved to date suggests that the Government's ultimate liability is likely to be significantly less than that estimate.

  In addition, the Department did not meet its goal of submitting a license application for the Yucca Mountain repository to the Nuclear Regulatory Commission by the end of calendar year 2004. The Department has since acknowledged that it will be unable to meet its goal of commencing disposal operations at a repository by 2010. The Department has increased its estimated liability for damages suffered by all utilities as a result of the delay in beginning SNF disposal to $5 billion, (unaudited).

  Under current law, any damages or settlements will be paid out of the Treasury's Judgment Fund, which the Department will not be required to reimburse.

- *Alleged Exposures to Radioactive and/or Toxic Substances* - A number of class action and multiple plaintiff tort suits have been filed against the Department's current and former contractors in which the plaintiffs seek damages for alleged exposures to radioactive and/or toxic substances as a result of the historic operations of the Department's nuclear facilities. The most significant of these cases arise out of past operations of the facilities at Rocky Flats, Colorado; Hanford, Washington; Paducah, Kentucky; Portsmouth (Piketon) and Mound, Ohio; and Brookhaven, New York. Collectively, damages sought in these cases exceed $119 billion.

  These cases are being vigorously defended, and, while in some cases proceedings are not far enough advanced to evaluate their likely outcome, in some of these cases substantially all of the plaintiffs' claims have been dismissed by the courts, and the likelihood of an unfavorable outcome is remote. Additionally, some matters have been appealed to the courts of appeal, and the final resolution of these issues has not been determined. However, the Department believes that, to the extent that there is a reasonable possibility of an unfavorable outcome in these cases, any liability that might ultimately be imposed would be significantly less than what the plaintiffs seek. No related liabilities are recorded in the Department's financial statements.

- *Offsite Waste Litigation* – The State of Washington and interest groups have filed complaints in District Court seeking to prevent shipment of radioactive waste by the Department to the Hanford site. The complaints allege violations of the National Environmental Policy Act (NEPA) and the State of Washington Hazardous Waste Management Act (HWMA). In May 2003, the Court issued a preliminary injunction against shipments of transuranic waste and the State later filed a motion to expand the preliminary injunction to include offsite low-level and mixed low-level wastes. In early 2005 (unaudited), the District Court ruled against the United States on the HWMA portion of the case. The court also lifted the preliminary injunction against the importation of offsite transuranic waste, but instituted a stay against the importation of low-level and mixed low-level wastes. The Government may appeal the adverse ruling on the HWMA portion of the case, and the parties are in settlement negotiations regarding the NEPA portion of the case. The Department has voluntarily suspended shipments of offsite transuranic wastes to Hanford.

  In addition, on November 2, 2004, voters in the State of Washington approved Initiative 297, or the Cleanup Priority Act, which seeks to prevent the Department from shipping offsite waste to the Hanford site until existing waste at the site is cleaned up. The District Court granted an injunction that prohibited the implementation of the initiative before it became effective, and has established a briefing schedule that will conclude with oral argument in May 2006.

  The impact of this litigation and the approval of the Cleanup Priority Act on the costs of the Department's cleanup program are uncertain, and no provision for additional costs is included in the consolidated financial statements.

- *Depleted Uranium* – The Department has entered into settlements with the states of Kentucky and Ohio regarding the management of depleted uranium hexafluoride. The Ohio settlement expires in 2008, and the Kentucky settlement has been challenged by a lawsuit seeking to require the Department to manage the depleted uranium as hazardous waste under the Resource Conservation and Recovery Act (RCRA) of 1976. If the Department were required to manage this material in accordance with RCRA, it may have to make significant capital improvements and undertake additional recurring monitoring and inspection activities. The Department believes that it will be successful in defending against the lawsuit and will not be required to manage the depleted uranium as RCRA waste, and has included no provision for the costs of doing so in its consolidated financial statements.

- *Uranium Enrichment Services Pricing* – This litigation concerns whether electric utilities that purchased uranium enrichment services from the Department are entitled to retroactive price reductions based on the alleged inclusion of inappropriate costs in the prices the Government charged for enrichment services. During FY 2005, (unaudited) a settlement of $54.5 million covering the lead case was paid from the Judgment Fund. Three cases are pending involving the claims of 25 utilities. In aggregate, the pending cases seek approximately $439 million. The Government is engaged in settlement negotiations with the plaintiffs in one case, and the two others remain stayed.

- *Transuranic Waste* – The State of Idaho is challenging the interpretation of a settlement agreement reached in 1995 concerning the shipment of transuranic waste from the Idaho National Laboratory. The Government asserts that the agreement requires only stored waste to be shipped offsite by 2018, but the State asserts that this requirement also applies to buried transuranic waste. Should the State prevail, the resulting costs and operational disruptions could be substantial, but the Department has not recorded a provision for such costs in the consolidated financial statements.

- *Purchase/Sales Commitments and Irrigation Assistance* - The PMAs have entered into various agreements for power and transmission purchases and sales that vary in length but generally do not exceed 20 years. Current rates recover the additional costs of the obligations. The sales commitments are arrangements to sell expected surplus generating capabilities at future dates and the purchase commitments are to purchase power at future dates when the PMAs forecast a shortage of generating capability and prices are favorable. These contracts maximize revenues on estimated surplus volumes.

  The Northwest Power Act directs BPA to protect, mitigate and enhance fish and wildlife resources to the extent they are affected by federal hydroelectric projects on the Columbia River and its tributaries. BPA makes expenditures and incurs other costs for fish and wildlife consistent with the Northwest Power Act and the Pacific Northwest Power and Conservation Council's Columbia River Basin Fish and Wildlife Program. In addition, in the wake of certain listings of fish species under the Endangered Species Act (ESA) as threatened or endangered, BPA is financially responsible for expenditures and other costs arising from conformance with the ESA and certain biological opinions prepared by the National Oceanic and Atmospheric Administration and the Fish and Wildlife Service in furtherance of the ESA.

  As directed by legislation, BPA is required to make cash distributions to Treasury for original construction costs of certain Pacific Northwest irrigation projects that have been determined to be beyond the irrigators' ability to pay. These irrigation distributions do not specifically relate to power generation and are required only if doing so does not result in an increase to power rates. Accordingly, these distributions are not considered to be regular operating costs of the power program and are treated as distributions from accumulated net revenues or expenses when paid.

The following table summarizes future purchase power/sales commitments and irrigation assistance (unaudited).

Fiscal Year	Purchase Power	Sales Commitments	Irrigation Assistance
2006	$ 622	$ 2,096	$ -
2007	83	1,712	-
2008	77	1,723	3
2009	106	1,722	7
2010	99	1,807	-
2011+	162	1,803	657
Total	**$1,149**	**$ 10,863**	**$ 667**

17. Earned Revenues

(in millions)

	FY 2005 (unaudited)		FY 2004	
Naval Reactors				
Public	$ (10)		$ -	
Intragovernmental	(8)		(8)	
Total Naval Reactors		$ (18)		$ (8)
Energy Security				
Public	$ (4,048)		$ (4,013)	
Intragovernmental	(72)		(76)	
Total Energy Security		(4,120)		(4,089)
Environmental Management				
Public	$ 1		$ (16)	
Intragovernmental	(152)		(137)	
Total Environmental Management		(151)		(153)
Nuclear Waste				
Public	$ (762)		$ (722)	
Intragovernmental	(1,049)		(812)	
Less Deferred Revenue Adjustment	1,490		1,212	
Total Nuclear Waste		(321)		(322)
Reimbursable Programs				
Public	$ (532)		$ (404)	
Intragovernmental	(2,719)		(2,353)	
Total Reimbursable Programs		(3,251)		(2,757)
Other Programs				
Federal Energy Regulatory Commission				
Public (Note 18)	$ (222)		$ (213)	
Other				
Public (Note 18)	(75)		(90)	
Total Other Programs		(297)		(303)
Total earned revenues		**$ (8,158)**		**$ (7,632)**

Energy Security

These revenues primarily result from the Department's power marketing activities. The Department's four power marketing administrations market electricity generated primarily by Federal hydropower projects. Preference for the sale of power is given to public bodies and cooperatives. Revenues from selling power and transmission services are used to repay Treasury annual appropriations and maintenance costs, repay the capital investments with interest, and assist capital repayment of other features and certain projects. Revenues collected by the Southeastern, Southwestern, and Western Area Power Administrations on behalf of other agencies are reported as custodial activity (see Note 24).

Environmental Management

These revenues primarily result from assessed fees to domestic utilities to pay for the costs for decontamination and decommissioning DOE's gaseous diffusion facilities used for uranium enrichment services. Revenue from assessments against domestic utilities is recognized when such assessments are authorized by legislation. Revenue recognized includes known adjustments for transfers between utilities and other reconciliation adjustments. Increases in current and future assessments due to changes in the Consumer Price Index are recognized in each fiscal year as such changes occur. Interest earned on accumulated funds in excess of those needed to pay current program costs totaled $145 million and $131 million for September 30, 2005 (unaudited) and 2004, respectively.

Nuclear Waste

The Nuclear Waste Policy Act of 1982 requires the Department to assess fees against owners and generators of high-level radioactive waste and spent nuclear fuel to fund the costs associated with management and disposal activities under the Act. Fees of $733 million and $736 million were assessed during the years ended September 30, 2005 (unaudited) and 2004, respectively. Interest earned on fees owed and on accumulated funds in excess of those needed to pay current program costs totaled $953 million and $799 million for FY 2005 (unaudited) and FY 2004, respectively. Adjustments are made annually to defer the recognition of revenues until earned (i.e., when costs are incurred) for the Civilian Radioactive Waste Management program.

Reimbursable Programs

The Department performs work for other Federal agencies and private companies on a reimbursable work basis and on a cooperative work basis. The Department also has entered into cooperative research and development agreements to increase the transfer of Federally funded technologies to the private sector for the benefit of the U.S. economy.

The Department's policy is to establish prices for materials and services provided to public entities at the Department's full cost. In some cases, the full cost information reported by the Department in accordance with SFFAS 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government,* exceeds revenues. This results from implementation of provisions contained in the Economy Act of 1932, as amended; the Atomic Energy Act of 1954, as amended; and the *National Defense Authorization Act for Fiscal Year 1999,* which provide the Department with the authority to charge customers an amount less than the full cost of the product or service. Costs attributable to generating intragovernmental reimbursable program revenues were $2,882 million and $2,341 million for FY 2005 (unaudited) and FY 2004, respectively.

Federal Energy Regulatory Commission

The Federal Energy Regulatory Commission (FERC) is an independent regulatory organization within the Department that regulates essential aspects of electric, natural gas and oil pipeline, and non-Federal hydropower industries. It ensures that the rates, terms, and conditions of service for segments of the electric and natural gas and oil pipeline industries are just and reasonable; it authorizes the construction of natural gas pipeline facilities; and it ensures that hydropower licensing, administration, and safety actions are consistent with the public interest. FERC assesses most of its administrative program costs as an annual charge to each regulated entity.

18. Supporting Schedule of Net Cost for Other Programs

(in millions)

	FY 2005 (unaudited)		FY 2004	
Federal Energy Regulatory Commission				
Program costs - public	$ 221		$ 213	
Less earned revenues (Note 17)	(222)		(213)	
		$ (1)		$ -
Inspector General		45		41
Environment, safety and health		147		162
Other defense activities		203		298
Other programs - public				
Program costs	$ 51		$ 44	
Less earned revenues (Note 17)	(75)		(90)	
		(24)		(46)
Total net cost for other programs		**$ 370**		**$ 455**

19. Costs Applied to Reduction of Legacy Environmental Liabilities

Costs applied to reduction of legacy environmental liabilities are current year operating expenditures for the remediation of contaminated facilities and wastes generated from past operations. These amounts are excluded from current year program expenses since the expense was accrued in prior years when the Department recorded the environmental liabilities.

20. Costs Not Assigned

(in millions)

	FY 2005 (unaudited)	FY 2004
Change in unfunded environmental liability estimates (Note 14)	$ 16,519	$ 6,011
Change in spent nuclear fuel contingency (Note 16)	3,080	-
Changes in contractor pension and PRB estimates (Notes 9 & 15)	1,594	1,013
Waste incidental to reprocessing litigation	-	(850)
Change in unfunded safety and health liabilities (Note 13)	(16)	360
Change in occupational illness program -		
Subtitle B	502	846
Subtitle D and E (Note 13)	3,631	810
Uranium enrichment services pricing litigation (Note 16)	55	-
Other	134	87
Total costs not assigned	**$ 25,499**	**$ 8,277**

Compensation Program for Occupational Illnesses

The EEOICPA authorized compensation for certain illnesses suffered by employees of the Department, its predecessor agencies, and contractors who performed work for the nuclear weapons program. Subtitle B covers illnesses associated with exposure to radiation, beryllium, or silica. In general, each eligible employee and survivors of deceased employees will receive compensation for the disability or death of that employee in the amount of $150,000 plus the costs of medical care.

The National Defense Authorization Act of 2005 amended the EEOICPA to include Subtitle E, Contractor Employee Compensation. This amendment replaced Subtitle D of the EEOICPA, which provided assistance from the Department in obtaining state workers' compensation benefits. The new program grants workers' compensation benefits to covered employees and their families for illness and death arising from exposure to toxic substances at a DOE facility. The amendment also makes it possible for uranium workers as defined under Section 5 of the Radiation Exposure Compensation Act to receive compensation under Subtitle E for illnesses due to toxic substance exposure at a uranium mine or mill covered under that Act.

The law makes payments under these programs the responsibility of the DOL. Therefore, the liability is recorded by the DOL and changes in the total liability are recognized by the Department as imputed costs and imputed financing source.

21. Nuclear Waste Fund Offsetting Receipts, Deferred

The Department defers the recognition of revenues related to the fees paid by owners and generators of spent nuclear fuel, and the interest earned on the invested balance of these funds, to the extent that the receipts exceed current year costs for developing and managing a permanent repository for spent nuclear fuel generated by civilian reactors. In addition, market value adjustments for Treasury securities of the Nuclear Waste Fund are not recognized as revenues in the current period unless redeemed by the Department. The gross amount of receipts, interest collected, and the market value adjustments for zero coupon bond investments are reported as offsetting receipts on the *Consolidated Statements of Financing.* Therefore, a reconciling amount is reported for that portion of the offsetting receipts for which revenues are not recognized in the current period.

22. Statement of Budgetary Resources

(in millions)

The *Statement of Budgetary Resources* is presented on a combined, rather than a consolidated, basis in accordance with OMB guidance.

Details of Obligations Incurred:

	FY 2005 (unaudited)	FY 2004
Direct, subject to apportionment	$ 24,879	$ 23,878
Direct, not subject to apportionment	3,253	4,547
Reimbursable, subject to apportionment	3,744	4,062
Total obligations incurred	**$ 31,876**	**$ 32,487**

Adjustments to Beginning Balances of Budgetary Resources:

	FY 2005 (unaudited)	FY 2004
Prior year unobligated balance, net - end of period		
Available, apportioned	$ 2,538	$ 1,790
Exempt from apportionment	12	15
Not available	1,486	1,803
Total - prior year unobligated balance	$ 4,036	$ 3,608
Other adjustments	-	(32)
Current year unobligated balance, start of period	**$ 4,036**	**$ 3,576**

Unobligated Balances Not Available:

	FY 2005 (unaudited)	FY 2004
United States Enrichment Corporation Fund	$ 1,383	$ 1,350
Reimbursable work/collections in excess of amount anticipated	224	119
Prior year deobligations in excess of apportioned amount	11	4
Expired appropriations and other amounts not apportioned	11	13
Total unobligated balances not available (Note 3)	**$ 1,629**	**$ 1,486**

Unobligated balances not available represent budgetary resources that have not been apportioned to the Department.

Reconciliation to Appropriations Received on the Statements of Changes in Net Position:

	FY 2005 (unaudited)	FY 2004
Appropriations received on the Combined Statements of Budgetary Resources	$ 25,062	$ 24,190
Less:		
Special and trust fund appropriated receipts	(1,136)	(853)
Appropriated capital owed	(43)	(45)
Appropriations made available from previous year	(101)	(119)
Appropriations received on the Statement of Changes in Net Position	**$ 23,782**	**$ 23,173**

Reconciliation to the Budget:

	FY 2005 (unaudited)			FY 2004		
	Budgetary Resources	Obligations Incurred	Outlays	Budgetary Resources	Obligations Incurred	Outlays
Combined Statement of Budgetary Resources	$ 36,117	$ 31,876	$ 24,603	$ 36,523	$ 32,487	$ 23,087
OMB adjustments made to exclude:						
United States Enrichment Corporation	(1,383)	-	33	(1,350)	-	48
Expired accounts	(10)	-	-	(7)	-	
Other	-	-	-	(4)	1	(2)
Budget of the United States Government	**$ 34,724**	**$ 31,876**	**$ 24,636**	**$ 35,162**	**$ 32,488**	**$ 23,133**

The FY 2005 (unaudited) *Combined Statement of Budgetary Resources* final reconciliation will be completed once the President's Budget is published in February 2006. The FY 2004 *Combined Statement of Budgetary Resources* is reconciled to the President's Budget that was published in February 2005.

23. Increases/(Decreases) in Unfunded Liabilities

(in millions)

	FY 2005 (unaudited)	FY 2004
Change in unfunded environmental liability estimates (Note 14)	$ 16,519	$ 6,011
Spent nuclear fuel contingency (Note 16)	3,080	
Change in contractor net pension and PRB estimates (Notes 9 and 15)	1,826	1,013
Waste incidental to reprocessing litigation	-	(850)
Change in unfunded safety and health liabilities (Note 13)	(16)	360
Compensation program for occupational illnesses - Subtitle D (Notes 13 and 20)	-	810
Change in other unfunded liabilities	(209)	213
Total increases in unfunded liabilities	**$ 21,200**	**$ 7,557**

24. Custodial Activities

(in millions)

	FY 2005 (unaudited)	FY 2004
Cash collections		
Power marketing administrations	$ 657	$ 624
Petroleum Pricing Violation Escrow Fund	23	3
Federal Energy Regulatory Commission	53	75
Total cash collections for custodial activities	**$ 733**	**$ 702**

Power Marketing Administrations

The Southeastern, Southwestern, and Western Area Power Administrations are responsible for collecting and remitting to the Department of the Treasury and the Department of the Interior revenues attributable to the hydroelectric power projects owned and operated by the Department of Defense, Army Corps of Engineers; the Department of the Interior, Bureau of Reclamation; and the Department of State, International Boundary and Water Commission. These revenues are reported as custodial activities of the Department.

Petroleum Pricing Violation Escrow Fund

Custodial revenues for the Petroleum Pricing Violation Escrow Fund result primarily from interest earned from investment of the fund balance, which is invested in U.S. Treasury Bills and certificates of deposit with minority owned financial institutions, pending determination of the disposition of the funds. Funds are disbursed to individuals and groups who are able to provide proof of financial injury related to the violations of Petroleum Pricing Regulations during the 1970s and early 1980s. The Department also distributes funds to the U.S. Treasury and to the States, Possessions, and Territories of the United States.

Consolidating Schedules

U. S. Department of Energy
Consolidating Schedules - Balance Sheets
As of September 30, 2005 and 2004
($ in millions)

	FY 2005 (unaudited)			
	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations
ASSETS				
Intragovernmental				
Fund Balance with Treasury	$ 113	$ 922	$ 14,599	$ -
Investments, Net	-	-	22,197	-
Accounts Receivable, Net	-	18	1,621	(987)
Regulatory Assets	-	4,536	-	-
Other	-	1	90	(70)
Total Intragovernmental	$ 113	$ 5,477	$ 38,507	$ (1,057)
Investments, Net	-	-	230	-
Accounts Receivable, Net	20	425	3,545	-
Inventory, Net				
Strategic Petroleum & Northeast Home Heating Oil Reserves	-	-	19,314	-
Nuclear Materials	-	-	21,285	-
Other	-	88	356	-
General Property, Plant, and Equipment, Net	9	6,067	17,114	-
Regulatory Assets	-	5,653	-	-
Other Non-Intragovernmental Assets	-	2,978	1,613	-
Total Assets	$ 142	$ 20,688	$ 101,964	$ (1,057)
LIABILITIES				
Intragovernmental				
Accounts Payable	$ 2	$ 13	$ 311	$ (270)
Debt	-	9,958	-	-
Deferred Revenues and Other Credits	-	57	855	(787)
Other Liabilities	(7)	62	114	-
Total Intragovernmental	$ (5)	$ 10,090	$ 1,280	$ (1,057)
Accounts Payable	7	149	3,727	-
Debt Held by the Public	-	6,574	-	-
Deferred Revenues and Other Credits	-	1,812	19,780	-
Environmental and Disposal Liabilities	-	-	189,710	-
Pension and Other Actuarial Liabilities	-	55	11,672	-
Other Liabilities	120	197	3,347	-
Contingencies and Commitments	-	6	5,052	-
Total Liabilities	$ 122	$ 18,883	$ 234,568	$ (1,057)
NET POSITION				
Unexpended Appropriations	$ 14	$ -	$ 8,964	$ -
Cumulative Results of Operations	6	1,805	(141,568)	-
Total Net Position	$ 20	$ 1,805	$ (132,604)	$ -
Total Liabilities and Net Position	$ 142	$ 20,688	$ 101,964	$ (1,057)

See indepedent auditor's report.

	FY 2004				
Consolidated	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations	Consolidated
$ 15,634	$ 105	$ 1,046	$ 14,455	$ -	$ 15,606
22,197	-	-	20,532	-	20,532
652	-	24	1,538	(999)	563
4,536	-	4,613	-	-	4,613
21	-	4	38	(29)	13
$ 43,040	$ 105	$ 5,687	$ 36,563	$ (1,028)	$ 41,327
230	-	-	256	-	256
3,990	34	385	3,643	-	4,062
19,314	-	-	18,148	-	18,148
21,285	-	-	21,722	-	21,722
444	-	95	341	-	436
23,190	8	5,647	16,678	-	22,333
5,653	-	5,741	-	-	5,741
4,591	-	3,085	2,198	-	5,283
$ 121,737	$ 147	$ 20,640	$ 99,549	$ (1,028)	$ 119,308
$ 56	$ 3	$ 16	$ 228	$ (146)	$ 101
9,958	-	10,468	-	-	10,468
125	-	105	926	(882)	149
169	55	54	153	-	262
$ 10,308	$ 58	$ 10,643	$ 1,307	$ (1,028)	$ 10,980
3,883	6	221	3,156	-	3,383
6,574	-	6,531	-	-	6,531
21,592	-	1,895	18,340	-	20,235
189,710	-	-	181,742	-	181,742
11,727	-	51	10,479	-	10,530
3,664	62	189	4,116	-	4,367
5,058	-	-	1,943	-	1,943
$ 252,516	$ 126	$ 19,530	$ 221,083	$ (1,028)	$ 239,711
$ 8,978	$ 18	$ 4	$ 8,762	$ -	$ 8,784
(139,757)	3	1,106	(130,296)	-	(129,187)
$ (130,779)	$ 21	$ 1,110	$ (121,534)	$ -	$ (120,403)
$ 121,737	$ 147	$ 20,640	$ 99,549	$ (1,028)	$ 119,308

See indepedent auditor’s report.

U. S. Department of Energy
Consolidating Schedules of Net Cost
For Years Ended September 30, 2005 and 2004
($ in millions)

	FY 2005 (unaudited)			
	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations
STRATEGIC GOALS:				
Defense				
Nuclear Weapons Stewardship:				
Total Program Costs	$ -	$ -	$ 6,779	$ -
Nuclear Nonproliferation:				
Total Program Costs	$ -	$ -	$ 1,191	$ -
Naval Reactors:				
Program Costs	-	-	810	-
Less: Earned Revenues	-	-	(18)	-
Net Cost of Naval Reactors	$ -	$ -	$ 792	$ -
Net Cost of Defense	$ -	$ -	$ 8,762	$ -
Energy				
Program Costs	-	3,620	3,050	(53)
Less: Earned Revenues	-	(4,063)	(96)	39
Net Cost of Energy	$ -	$ (443)	$ 2,954	$ (14)
Science				
Total Program Costs	$ -	$ -	$ 3,565	$ -
Environment				
Environmental Management:				
Program Costs	-	-	7,178	(459)
Less: Earned Revenues	-	-	(151)	-
Net Cost of Environmental Management	$ -	$ -	$ 7,027	$ (459)
Nuclear Waste:				
Program Costs	-	-	521	-
Less: Earned Revenues	-	-	(321)	-
Net Cost of Nuclear Waste	$ -	$ -	$ 200	$ -
Net Cost of Environment	$ -	$ -	$ 7,227	$ (459)
Net Cost of Strategic Goals	$ -	$ (443)	$ 22,508	$ (473)
OTHER PROGRAMS:				
Reimbursable Programs:				
Program Costs	-	173	3,141	-
Less: Earned Revenues	-	(151)	(3,100)	-
Net Cost of Reimbursable Programs	$ -	$ 22	$ 41	$ -
Other Programs				
Program Costs	221	-	546	(100)
Less: Earned Revenues	(222)	$ -	(175)	100
Net Cost of Other Programs	$ (1)	$ -	$ 371	$ -
Other Allocable Costs		$ -	-	-
Costs Applied to Reduction of Legacy Environmental Liabilities	-	-	(6,637)	-
Changes in Unfunded Liability Estimate		-	-	-
Costs Not Assigned	-	-	25,499	-
Net Cost of Operations	$ (1)	$ (421)	$ 41,782	$ (473)

See indepedent auditor's report.

	FY 2004				
Consolidated	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations	Consolidated
$ 6,779	$ -	$ -	$ 6,220	$ -	$ 6,220
$ 1,191	$ -	$ -	$ 1,101	$ -	$ 1,101
810	-	-	740	-	740
(18)	-	-	(8)	-	(8)
$ 792	$ -	$ -	$ 732	$ -	$ 732
$ 8,762	$ -	$ -	$ 8,053	$ -	$ 8,053
6,617	-	3,722	2,723	(67)	6,378
(4,120)	-	(4,107)	(34)	52	(4,089)
$ 2,497	$ -	$ (385)	$ 2,689	$ (15)	$ 2,289
$ 3,565	$ -	$ -	$ 3,196	$ -	$ 3,196
6,719	-	-	6,732	(449)	6,283
(151)	-	-	(153)	-	(153)
$ 6,568	$ -	$ -	$ 6,579	$ (449)	$ 6,130
521	-	-	530	-	530
(321)	-	-	(196)	(126)	(322)
$ 200	$ -	$ -	$ 334	$ (126)	$ 208
$ 6,768	$ -	$ -	$ 6,913	$ (575)	$ 6,338
$ 21,592	$ -	$ (385)	$ 20,851	$ (590)	$ 19,876
3,314	-	-	2,738	-	2,738
(3,251)	-	-	(2,757)	-	(2,757)
$ 63	$ -	$ -	$ (19)	$ -	$ (19)
667	213	-	642	(97)	758
(297)	(213)	-	(187)	97	(303)
$ 370	$ -	$ -	$ 455	$ -	$ 455
-	-	-	-	-	-
(6,637)	-	-	(6,667)	-	(6,667)
-					
25,499	-	-	8,151	126	8,277
$ 40,887	$ -	$ (385)	$ 22,771	$ (464)	$ 21,922

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U. S. Department of Energy
Consolidating Schedules of Changes in Net Position
For Years Ended September 30, 2005 and 2004
($ in millions)

	FY 2005 (unaudited)			
	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations
CUMULATIVE RESULTS OF OPERATIONS:				
Beginning Balance	$ 3	$ 1,106	$ (130,296)	$ -
Budgetary Financing Sources:				
Appropriations Used	4	4	23,703	-
Nonexchange Revenues	-	-	35	-
Donations, Financial	-	-	13	-
Transfers - In/(Out) Without Reimbursement, Budgetary	-	(141)	(13)	-
Other Financing Sources:				
Donations, Nonfinancial	-	340	-	-
Transfers - In/(Out) Without Reimbursement, Nonbudgetary	(15)	47	2,100	-
Imputed Financing from Costs Absorbed by Others	11	-	4,268	-
Other Gains and Losses	2	28	404	(473)
Total Financing Sources	$ 2	$ 278	$ 30,510	$ (473)
Net Cost of Operations	1	421	(41,782)	473
Net Change	$ 3	$ 699	$ (11,272)	$ -
Ending Balance - Cumulative Results of Operations	$ 6	$ 1,805	$ (141,568)	$ -
UNEXPENDED APPROPRIATIONS:				
Beginning Balance	$ 18	$ 4	$ 8,762	$ -
Budgetary Financing Sources Related to Appropriations:				
Appropriations Received	-	-	23,782	-
Appropriations Transferred - In/(Out)	-	-	312	-
Other Adjustments	-	-	(189)	-
Appropriations Used	(4)	(4)	(23,703)	-
Total Financing Sources Related to Appropriations	$ (4)	$ (4)	$ 202	$ -
Ending Balance - Unexpended Appropriations	$ 14	$ -	$ 8,964	$ -

See indepedent auditor's report.

	FY 2004				
Consolidated	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations	Consolidated
$ (129,187)	$ 7	$ 893	$ (133,062)	$ -	$ (132,162)
$ 23,711	(3)	6	23,106	-	23,109
35	-	-	13	-	13
13	-	-	1	-	1
(154)	-	(178)	(82)	-	(260)
340	-	-	-	-	-
2,132	(9)	-	1,040	-	1,031
4,279	8	-	1,003	-	1,011
(39)	-	-	456	(464)	(8)
$ 30,317	$ (4)	$ (172)	$ 25,537	$ (464)	$ 24,897
(40,887)	-	385	(22,771)	464	(21,922)
$ (10,570)	$ (4)	$ 213	$ 2,766	$ -	$ 2,975
$ (139,757)	$ 3	$ 1,106	$ (130,296)	$ -	$ (129,187)
$ 8,784	$ 15	$ 10	$ 8,875	$ -	$ 8,900
23,782	-	-	23,173	-	23,173
312	-	-	11	-	11
(189)	-	-	(191)	-	(191)
(23,711)	3	(6)	(23,106)	-	(23,109)
$ 194	$ 3	$ (6)	$ (113)	$ -	$ (116)
$ 8,978	$ 18	$ 4	$ 8,762	$ -	$ 8,784

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U. S. Department of Energy
Combining Schedules of Budgetary Resources
For Years Ended September 30, 2005 and 2004
($ in millions)

	FY 2005 (unaudited)			
	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Consolidated
BUDGETARY RESOURCES				
Budget Authority				
Appropriations Received (Note 22)	$ 3	$ 213	$ 24,846	$ 25,062
Borrowing and Contract Authority	-	1,333	-	1,333
Net Transfers	-	(73)	240	167
Unobligated Balance				
Beginning of Period (Note 22)	6	161	3,869	4,036
Net Transfers, Actual	-	-	2	2
Spending Authority from Offsetting Collections				
Earned				
Collected	210	3,786	3,228	7,224
Receivable from Federal Sources	-	50	81	131
Change in Unfilled Customer Orders				
Advances received	-	17	13	30
Without Advances from Federal Sources	-	(2)	214	212
Recoveries of Prior Year Obligations				
Actual	-	-	34	34
Authority Temporarily Not Available	-	(1)	(265)	(266)
Authority Permanently Not Available	-	(1,639)	(209)	(1,848)
Total Budgetary Resources	$ 219	$ 3,845	$ 32,053	$ 36,117
STATUS OF BUDGETARY RESOURCES				
Obligations Incurred	$ -	$ -	$ -	$ -
Direct	210	226	$ 24,443	24,879
Exempt from Apportionment	-	2,923	330	3,253
Reimbursable	-	531	3,213	3,744
Total Obligations Incurred (Note 22)	$ 210	$ 3,680	$ 27,986	$ 31,876
Unobligated Balances Available				
Apportioned Available	9	164	2,415	2,588
Exempt from Apportionment	-	-	24	24
Unobligated Balances Not Available	-	1	1,628	1,629
Total Status of Budgetary Resources	$ 219	$ 3,845	$ 32,053	$ 36,117
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS				
Obliated Balance - Beginning of Period	$ 26	$ 2,082	$ 10,795	$ 12,903
Obligated Balance - End of Period				
Accounts Receivable	$ -	$ (306)	$ (460)	$ (766)
Unfilled Customer Orders from Federal Sources	-	(6)	(3,915)	(3,921)
Undelivered Orders	5	129	10,443	10,577
Accounts Payable	15	1,950	4,690	6,655
	$ 20	$ 1,767	$ 10,758	$ 12,545
Outlays				
Disbursements	$ 215	$ 3,948	$ 27,693	$ 31,856
Collections	(210)	(3,803)	(3,240)	(7,253)
Subtotal	$ 5	$ 145	$ 24,453	$ 24,603
Less: Offsetting Receipts	(18)	(739)	(2,479)	(3,236)
Net Outlays	$ (13)	$ (594)	$ 21,974	$ 21,367

See indepedent auditor's report.

FY 2004			
Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Combined
$ 3	$ 215	$ 23,972	$ 24,190
-	1,681	-	1,681
-	(74)	(11)	(85)
4	176	3,396	3,576
-	-	(2)	(2)
204	3,948	2,851	7,003
-	(86)	109	23
-	(39)	(1)	(40)
-	(8)	993	985
-	-	32	32
-	-	(101)	(101)
-	(482)	(257)	(739)
$ 211	$ 5,331	$ 30,981	$ 36,523
$ 205	$ 247	$ 23,426	$ 23,878
-	4,356	191	4,547
-	568	3,494	4,062
$ 205	$ 5,171	$ 27,111	$ 32,487
6	160	2,372	2,538
-	-	12	12
-	-	1,486	1,486
$ 211	$ 5,331	$ 30,981	$ 36,523
$ 24	$ 870	$ 10,612	$ 11,506
$ -	$ (256)	$ (380)	$ (636)
-	(8)	(3,700)	(3,708)
12	164	10,185	10,361
14	2,182	4,690	6,886
$ 26	$ 2,082	$ 10,795	$ 12,903
$ 204	$ 4,052	$ 25,794	$ 30,050
(205)	(3,910)	(2,848)	(6,963)
$ (1)	$ 142	$ 22,946	$ 23,087
(19)	(531)	(2,611)	(3,161)
$ (20)	$ (389)	$ 20,335	$ 19,926

See indepedent auditor's report.

U. S. Department of Energy
Consolidating Schedules of Financing
For Years Ended September 30, 2005 and 2004
($ in millions)

	FY 2005 (unaudited)			
	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations
RESOURCES USED TO FINANCE ACTIVITIES:				
Budgetary Resources Obligated:				
Obligations Incurred	$ 210	$ 3,680	$ 27,986	$ -
Less: Spending Authority from Offsetting Collections and Recoveries	(210)	(3,851)	(3,570)	-
Obligations, Net of Offsetting Collections and Recoveries	$ -	$ (171)	$ 24,416	$ -
Offsetting Receipts	(18)	(739)	(2,479)	-
Net Obligations	$ (18)	$ (910)	$ 21,937	$ -
Other Resources:				
Donations	-	340	(339)	-
Imputed Financing from Costs Absorbed by Others	11	-	4,268	-
Transfers-In/(Out)	(15)	47	2,100	-
NWF Offsetting Receipts, Deferred	-	-	2,095	-
Other	-	(495)	522	(14)
Net Other Resources Used to Finance Activities	$ (4)	$ (108)	$ 8,646	$ (14)
Total Resources Used to Finance Activities	$ (22)	$ (1,018)	$ 30,583	$ (14)
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS:				
Change in Resources Obligated for Goods/Services/Benefits Ordered But Not Yet Provided	$ 7	$ 55	$ 10	$ -
Resources that Finance the Acquisition of Assets	(4)	(320)	(5,426)	-
Resources that Fund Expenses Recognized in Prior Periods	-	-	(6,464)	-
Budgetary Offsetting Collections and Receipts that Do Not Affect the Net Cost of Operations	18	246	393	(482)
Other Resources and Adjustments	(2)	(160)	(271)	23
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	$ 19	$ (179)	$ (11,758)	$ (459)
Total Resources Used to Finance the Net Cost of Operations	$ (3)	$ (1,197)	$ 18,825	$ (473)
NET COST OF ITEMS THAT DO NOT REQUIRE OR GENERATE RESOURCES IN CURRENT PERIOD:				
Components Requiring or Generating Resources in Future Periods:				
Increase in Unfunded Liability Estimates	$ -	$ 239	$ 20,961	$ -
Increase in Exchange Revenue Receivable from the Public	1	1	-	-
Total Components Requiring or Generating Resources in Future Periods	$ 1	$ 240	$ 20,961	$ -
Components Not Requiring or Generating Resources:				
Depreciation and Amortization	$ 3	$ 539	$ 1,276	$ -
Revaluation of Assets and Liabilities	-	-	(194)	-
Other	(2)	(3)	914	-
Total Components Not Requiring or Generating Resources	$ 1	$ 536	$ 1,996	$ -
Total Net Cost of Items that Do Not Require or Generate Resources in Current Period	$ 2	$ 776	$ 22,957	$ -
NET COST OF OPERATIONS	$ (1)	$ (421)	$ 41,782	$ (473)

See indepedent auditor's report.

	FY 2004				
Consolidated	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations	Consolidated
$ 31,876	$ 205	$ 5,171	$ 27,111	$ -	$ 32,487
(7,631)	(204)	(3,815)	(3,984)	-	(8,003)
$ 24,245	$ 1	$ 1,356	$ 23,127	$ -	$ 24,484
(3,236)	(19)	(531)	(2,611)	-	(3,161)
$ 21,009	$ (18)	$ 825	$ 20,516	$ -	$ 21,323
1	-	-	-	-	-
4,279	7	-	1,004	-	1,011
2,132	(9)	-	1,040	-	1,031
2,095	-	-	2,095	-	2,095
13	-	-	7	(15)	(8)
$ 8,520	$ (2)	$ -	$ 4,146	$ (15)	$ 4,129
$ 29,529	$ (20)	$ 825	$ 24,662	$ (15)	$ 25,452
$ 72	$ (1)	$ (42)	$ 549	$ -	$ 506
(5,750)	-	(542)	(3,894)	-	(4,436)
(6,464)	-	-	(7,298)	-	(7,298)
175	19	291	517	(740)	87
(410)	(3)	(1,673)	(302)	165	(1,813)
$ (12,377)	$ 15	$ (1,966)	$ (10,428)	$ (575)	$ (12,954)
$ 17,152	$ (5)	$ (1,141)	$ 14,234	$ (590)	$ 12,498
$ 21,200	$ 1	$ 178	$ 7,252	$ 126	$ 7,557
2	-	3	-	-	3
$ 21,202	$ 1	$ 181	$ 7,252	$ 126	$ 7,560
$ 1,818	$ 2	$ 447	$ 1,090	$ -	$ 1,539
(194)	-	-	(161)	-	(161)
909	2	128	356	-	486
$ 2,533	$ 4	$ 575	$ 1,285	$ -	$ 1,864
$ 23,735	$ 5	$ 756	$ 8,537	$ 126	$ 9,424
$ 40,887	$ -	$ (385)	$ 22,771	$ (464)	$ 21,922

See indepedent auditor's report.

U. S. Department of Energy
Consolidating Schedules of Custodial Activities
For Years Ended September 30, 2005 and 2004
($ in millions)

	FY 2005 (unaudited)			
	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations
SOURCES OF COLLECTIONS				
Cash Collections				
Interest	$ -	$ -	$ 20	$ -
Federal Energy Regulatory Commission	53	-	-	-
Power Marketing Administration Custodial Revenue	-	657	-	-
Other Custodial Revenue	-	-	3	-
Total Cash Collections	$ 53	$ 657	$ 23	$ -
Accrual Adjustment	(8)	(1)	(10)	-
Total Revenue	$ 45	$ 656	$ 13	$ -
DISPOSITION OF REVENUE				
Transferred to Others				
Department of the Treasury	(31)	(584)	(9)	-
Army Corps of Engineers	(5)	-	-	-
Bureau of Reclamation	(5)	(74)	-	-
Others	(3)	-	-	-
Retained by DOE	-	-	-	
Increase (Decrease) in Amounts to be Transferred	(1)	2	(4)	-
Net Custodial Activity	$ -	$ -	$ -	$ -

See indepedent auditor's report.

	FY 2004				
Consolidated	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations	Consolidated
$ 20	$ -	$ -	$ 3	$ -	$ 3
53	75	-	-	-	75
657	-	624	-	-	624
3	-	-	-	-	-
$ 733	$ 75	$ 624	$ 3	$ -	$ 702
(19)	6	(5)	3	-	4
$ 714	$ 81	$ 619	$ 6	$ -	$ 706
(624)	(26)	(485)	(10)	-	(521)
(5)	(7)	-	-	-	(7)
(79)	(6)	(138)	-	-	(144)
(3)	(3)	-	(6)	-	(9)
-					
(3)	(39)	4	10	-	(25)
$ -	$ -	$ -	$ -	$ -	$ -

See indepedent auditor's report.

Required Supplementary Stewardship Information (RSSI)

Research & Development (unaudited)

The Department of Energy is the single largest Federal government supporter of basic research in the physical sciences in the United States, providing more than 40 percent of total Federal funding. It oversees, and is the principal Federal funding agency of, the Nation's research programs in high energy physics, nuclear physics and fusion energy sciences. Our diverse research portfolio supports tens of thousands of principal investigators, post-doctoral students and graduate students tackling some of the most challenging scientific questions of our era.

In accordance with Statement of Federal Financial Accounting Standard (SFFAS) Number (No.)8 - *Supplementary Stewardship Reporting Chapter 7 - Research and Development,* the Department reports the following expenses for research and development programs that are intended to increase or maintain national economic productive capacity or yield other future benefits. Investments in research and development refer to those expenses incurred to support the search for new or refined knowledge and ideas and for the application or use of such knowledge and ideas for the development of new or improved products or processes with the expectation of maintaining or increasing national economic productive capacity or yielding other future benefits.

Supplementary Stewardship Reporting on Research and Development Costs for Fiscal Years ending September 30 (in millions)

	FY 2005			FY 2004		
	Direct Cost	Depreciation & Other Managerial Cost	Total Cost	Direct Cost	Depreciation & Other Managerial Cost	Total Cost
BASIC						
Nuclear Nonproliferation	$3.2	$0.3	$3.5	$13.2	$1.0	$14.2
Energy Security						
Energy Efficiency	19.9	5.1	25.0	30.3	4.6	34.9
Fossil Energy	6.0	1.7	7.7	7.1	0.8	7.9
Power Marketing Administration**	-	-	-	3.4	-	3.4
World-Class Scientific Research	2,808.7	735.5	3,544.2	2,581.3	583.4	3,164.7
Environmental Management	-	-	-	-	-	-
TOTAL BASIC	**$2,837.6**	**$742.8**	**$3,580.4**	**$2,635.3**	**$589.8**	**$3,225.1**

* FY 2001 information provided via crosswalk from previous report format utilizing responsibility segments.
** Full R&D investments for the Power Marketing Administrations are included under direct costs of the Energy Security Goal.

FY 2003 Direct Cost	FY 2003 Depreciation & Other Managerial Cost	FY 2003 Total Cost	FY 2002 Direct Cost	FY 2002 Depreciation & Other Managerial Cost	FY 2002 Total Cost	FY 2001* Direct Cost	FY 2001* Depreciation & Other Managerial Cost	FY 2001* Total Cost
$10.1	$1.5	$11.6	$8.4	$1.3	$9.7	$15.5	$1.7	$17.2
24.0	3.5	27.5	30.2	5.4	35.6	26.2	8.0	34.2
10.0	1.2	11.2	5.9	1.5	7.4	7.0	2.0	9.0
3.3	-	3.3	3.2	-	3.2	3.0	-	3.0
2,448.0	594.0	3,042.0	2,598.0	506.0	3,104.0	2,204.8	392.0	2,596.8
-	-	-	-	-	-	33.8	6.1	39.9
$2,495.4	**$600.2**	**$3,095.6**	**$2,645.7**	**$514.2**	**$3,159.9**	**$2,290.3**	**$409.8**	**$2,700.1**

Supplementary Stewardship Reporting on Research and Development Costs for Fiscal Years ending September 30 (in millions)

	FY 2005 Direct Cost	FY 2005 Depreciation & Other Managerial Cost	FY 2005 Total Cost	FY 2004 Direct Cost	FY 2004 Depreciation & Other Managerial Cost	FY 2004 Total Cost
APPLIED						
Nuclear Weapons Stewardship	$1,898.6	$192.9	$2,091.5	$1,888.0	$405.0	$2,293.0
Nuclear Nonproliferation	73.2	5.5	78.7	60.4	4.4	64.8
Energy Security						
Energy Efficiency	251.4	34.7	286.1	202.4	20.1	222.5
Fossil Energy	157.4	50.3	207.7	176.5	19.5	196.0
Nuclear Energy	52.5	35.8	88.3	74.3	6.5	80.8
Electric Transmission and Distribution	55.6	4.1	59.7	18.7	2.1	20.8
Power Marketing Administration**	9.7	-	9.7	11.8	-	11.8
World-Class Scientific Research	-	-	-	3.1	0.5	3.6
Environmental Management	15.6	1.2	16.8	28.1	4.1	32.2
Nuclear Waste	144.0	1.9	145.9	65.3	1.8	67.1
Other Defense Activities	-	-	-	12.0	5.4	17.4
TOTAL APPLIED	**$2,658.0**	**$326.4**	**$2,984.4**	**$2,540.6**	**$469.4**	**$3,010.0**
DEVELOPMENT						
Nuclear Weapons Stewardship	$467.2	$106.8	$574.0	$543.4	$121.0	$664.4
Nuclear Nonproliferation	53.6	2.8	56.4	49.4	3.1	52.5
Naval Reactors	724.7	40.3	765.0	667.1	17.7	684.8
Energy Security						
Energy Efficiency	335.0	37.2	372.2	422.1	41.8	463.9
Fossil Energy	172.2	52.9	225.1	192.9	20.8	213.7
Nuclear Energy	1.2	0.8	2.0	20.6	1.6	22.2
Electric Transmission and Distribution	13.5	3.2	16.7	38.0	3.2	41.2
Power Marketing Administration**	2.1	0.0	2.1	8.8	-	8.8
Environmental Management	36.4	3.6	40.0	65.5	9.6	75.1
Other Defense Activities	13.2	0.4	13.6	26.3	12.4	38.7
TOTAL DEVELOPMENT	**$1,819.1**	**$248.0**	**$2,067.1**	**$2,034.1**	**$231.2**	**$2,265.3**
TOTAL RESEARCH AND DEVELOPMENT	**$7,314.9**	**$1,317.0**	**$8,631.9**	**$7,210.0**	**$1,290.4**	**$8,500.4**

* FY 2001 information provided via crosswalk from previous report format utilizing responsibility segments.

**Full R&D investments for the Power Marketing Administrations are included under direct costs of the Energy Security Goal.

FY 2003 Direct Cost	FY 2003 Depreciation & Other Managerial Cost	FY 2003 Total Cost	FY 2002 Direct Cost	FY 2002 Depreciation & Other Managerial Cost	FY 2002 Total Cost	FY 2001* Direct Cost	FY 2001* Depreciation & Other Managerial Cost	FY 2001* Total Cost
$1,660.5	$454.5	$2,115.0	$1,700.0	$379.6	$2,079.6	$1,416.2	$222.5	$1,638.7
95.2	13.8	109.0	72.2	11.0	83.2	$75.9	7.4	83.3
169.7	21.9	191.6	180.4	11.8	192.2	231.7	24.3	256.0
186.7	21.7	208.4	131.6	10.3	141.9	133.0	35.3	168.3
12.3	1.2	13.5	20.9	5.0	25.9	26.8	2.8	29.6
-	-	-	-	-	-	-	-	-
11.4	-	11.4	11.1	-	11.1	10.8	-	10.8
2.9	0.5	3.4	37.9	4.3	42.2	81.0	1.1	82.1
23.4	4.4	27.8	89.9	20.8	110.7	77.7	15.5	93.2
75.8	1.0	76.8	62.5	2.6	65.1	60.4	3.1	63.5
-	-	-	-	-	-	-	-	-
$2,237.9	**$519.0**	**$2,756.9**	**$2,306.5**	**$445.4**	**$2,751.9**	**$2,113.5**	**$312.0**	**$2,425.5**
$734.3	$221.5	$955.8	$726.6	$175.7	$902.3	$643.3	$201.7	$845.0
66.1	9.9	76.0	83.8	13.3	97.1	79.1	7.4	86.5
621.8	16.3	638.1	653.0	16.6	669.6	604.5	40.9	645.4
352.4	42.8	395.2	403.5	30.3	433.8	461.0	51.7	512.7
202.1	23.0	225.1	167.6	17.4	185.0	157.6	36.9	194.5
16.0	2.4	18.4	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
8.7	-	8.7	8.7	-	8.7	8.4	-	8.4
54.7	10.3	65.0	134.8	31.2	166.0	116.6	23.2	139.8
32.0	15.3	47.3	4.3	0.5	4.8	30.3	12.1	42.4
$2,088.1	**$341.5**	**$2,429.6**	**$2,182.3**	**$285.0**	**$2,467.3**	**$2,100.8**	**$373.9**	**$2,474.7**
$6,821.4	**$1,460.7**	**$8,282.1**	**$7,134.5**	**$1,244.6**	**$8,379.1**	**$6,504.6**	**$1,095.7**	**$7,600.3**

Research and Development Activities and Significant Accomplishments by General Goal

Research and development (R&D) performance measures within some non-R&D programs are not explicitly identified because they are only minor support activities within those programs.

General Goal 1: Nuclear Weapons Stewardship – *Applied & Development*

Nuclear Weapons Stewardship activities: (1) provide the scientific understanding and engineering development capabilities necessary to support near-term and long-term requirements of the nuclear stockpile; (2) provide scientific understanding of the nuclear package of the weapons systems in order to sustain our ability to certify the nuclear weapons stockpile, support stockpile refurbishment and life extension and to provide capabilities and components necessary to support maintenance and refurbishment in the absence of nuclear testing; and (3) ensure the weapons complex and its facilities and infrastructure are in place to manufacture and certify the 21st century nuclear weapons stockpile.

The applied research and development program of the science campaign helps to support the nuclear weapons stewardship goal by ensuring that our nuclear weapons will continue to serve their essential deterrence role. One key goal of the National Nuclear Security Administration is to develop improved capabilities to assess the safety, reliability and performance of the nuclear package portion of weapons without further underground testing. The Dual-Axis Radiographic Hydrotest Facility (DAHRT), located at Los Alamos National Laboratory, is designed to take a rapid sequence of x-ray images of a simulated nuclear weapon implosion. For FY 2005, the Department committed to achieving 25 percent cumulative progress towards conducting the first 2-axis hydrodynamics test at DAHRT. A comprehensive technical review of the DARHT was conducted in June 2005 that concluded the project had satisfactorily solved the existing technical issues. The tests are on track to be completed during CY 2008.

General Goal 2: Nuclear Nonproliferation – *Basic, Applied & Development*

Activities conducted provide the science and technology required for treaty monitoring and material control, as well as early detection and characterization of the proliferation of weapons of mass destruction and special nuclear materials and improving the technologies leading to major improvements in responding to chemical and biological attacks.

Under the Department's goal to have all worldwide fissile nuclear materials under controls acceptable to the United States by 2025, the nonproliferation verification research and development program will develop new technologies to improve our ability to detect and monitor nuclear explosions. Advanced technologies and operational systems (e.g., satellite payloads and seismic station calibration data sets) will be developed to improve the accuracy and sensitivity of nuclear weapons test monitoring. For FY 2005, the Department committed to deliver eight such technologies to U.S. national security users. Seven technologies were delivered. Due to an industry-wide recall of a class of space-qualified electronic hardware, delivery of a satellite payload scheduled for FY 2005 is delayed until FY 2006. Delivery of seismic data sets was met as scheduled.

General Goal 3: Naval Reactors - *Development*

Activities include development, demonstration, improvement, and safe operation of nuclear propulsion plants and reactor cores for application to submarines and surface ships.

The Transformational Technology Core (TTC) reactor plant design is designed to meet increasing demands on the submarine fleet, delivering a significant energy increase to future VIRGINIA-class ships with minimum impact to the overall ship design. For FY 2005, the Department committed to achieve 23 percent of the TTC core conceptual design and to initiate final design and development work. The target was met, and the program is on track for completion in FY 2015.

General Goal 4: Energy Security – *Basic, Applied & Development*

The Department will improve energy security by developing technologies that foster a diverse supply of reliable, affordable and environmentally sound energy by providing for reliable delivery of energy, guarding against energy emergencies, and exploring advanced technologies that make a fundamental improvement in our mix of energy options. Discussed below are contributions from the DOE offices that contribute to the Energy Security general goal.

Energy Efficiency and Renewable Energy – Activities relate to (1) solar technologies; (2) geothermal technologies; (3) wind and hydropower technologies; (4) hydrogen and fuel cell technologies for transportation, stationary, and portable application; (5) energy conservation for the building sector, including residential building, commercial building, and retrofit technologies; (6) distributed energy technologies; (7) biomass technologies; (8) energy efficiency and renewable energy efforts in the federal sector; (9) energy conservation and energy supply efforts in the industry sector; (10) energy conservation for the transportation sector, including automotive alternative fuels and electric vehicles; and, (11) energy conservation and renewable energy for intergovernmental activities including the State Energy Program and Weatherization Program.

The vehicle technologies program develops technologies that enable cars and trucks to become highly efficient through improved power technologies and cleaner domestic fuels, and to be cost and performance competitive. Manufacturers and consumers will use these technologies to help the Nation reduce both energy use and greenhouse gas emissions, dramatically reducing dependence on oil. For FY 2005, the Department committed to reduce high power (25kW), light vehicle lithium ion battery cost to $900 per battery system. This target was met, contributing to the overall 2010 cost goal of $500 per 25kW battery system, while meeting Hybrid Electric Vehicles performance requirements.

Fossil Energy – Activities relate to (1) improving acceptable technology for advancing power conversion systems for generating electricity and hydrogen from coal; and (2) support of advanced technologies for the recovery of oil and natural gas, technologies and development in drilling and offshore oil production, and characterization research.

The Department is committed to developing advanced power systems capable of achieving up to 45-50 percent efficiency at a capital cost of $1000 per kilowatt or less for a coal-based plant. To support this goal, the gasification technologies program is working towards the commercialization of economical and efficient sulfur removal and/or multi-contaminant clean-up. For FY 2005, the Department committed to begin construction of slip stream test units, test planning, and testing of advanced gas cleanup concepts using real coal-derived synthesis gas. The target was met.

Nuclear Energy – Activities address the development of new nuclear generation technologies that foster the diversity of the domestic energy supply through public-private partnerships that are aimed in the near term (2014) at the deployment of advanced, proliferation-resistant light water reactor and fuel cycle technologies and in the longer term (2025) at the development and deployment of next-generation advanced reactors and fuel cycles.

The Advanced Gas Reactor program supports the development of nuclear fuel suitable for use in next-generation nuclear power plants. In FY 2005, the Department committed to issue the final design documents for the fuel capsule, test train, fission product monitoring system, and control system for the fuel irradiation shakedown test, designated as the AGR-1 experiment, to be carried out in the Advanced Test Reactor. The target was met, and the designs that describe the test equipment will be constructed and tested in FY 2006.

Power Marketing Administrations – Research activities primarily supporting the Fish and Wildlife programs at Bonneville Power Administration.

Electricity Delivery and Energy Reliability – Research and development activities address high temperature superconductivity, transmission reliability, electric distribution transformation, and innovative energy storage. These activities contribute to the modernization and expansion of the Nation's electricity delivery system to ensure a more reliable and robust electricity supply.

For FY 2005, the Department committed to achieving a wide area measurement system in the Nation's Eastern Interconnect that would enable real time monitoring of conditions on the Nation's electric grid. The target was met, with the Interconnect consisting of six fully functioning data archiving and analysis locations installed at six different utilities.

General Goal 5: World-Class Scientific Research Capacity – *Basic & Applied*

Research in the areas of (1) advanced scientific computing relevant to the complex problems of the Department and providing world class supercomputer and networking facilities for scientists; (2) basic energy sciences including nuclear sciences, materials sciences, chemical sciences, engineering geosciences, energy biosciences, advanced energy projects and advanced mathematical sciences; (3) biological and environmental research needed to identify, understand, and anticipate the long term health and environmental consequences of energy production, development, and use; (4) fusion energy sciences including broad-based, fundamental research efforts aimed at producing knowledge on fusion; (5) high energy physics activities directed at understanding the nature of matter and energy; (6) nuclear physics activities directed at understanding the fundamental forces and particles of nature as manifested in nuclear matter; and, (7) small business innovative research/technology transfer support for energy related technologies that will significantly benefit US businesses, a technology transfer initiative.

In an effort to provide world-class scientific research, the Department's Biological and Environmental Research program provides the discoveries necessary to clean and protect our environment, offer new energy alternatives, and fundamentally alter the future of medical care and human health. To support this latter goal, the program is pursuing technological advances to restore sight for blind patients. For FY 2005, the Department committed to complete fabrication of a 60 microelectrode array for use as an artificial retina, and to implant the prototype device into a blind patient. The fabrication the artificial retina was completed; however, FDA approval to implant the prototype device into blind patients is still pending. Approval is expected in the second quarter of FY 2006.

General Goal 6: Environmental Management – *Basic, Applied & Development*

Technology development activities (1) to support site closure through technical support and quick responses for highly focused science and technology projects; and (2) develop and provide the scientific and technical rationale to support development of alternative approaches and step improvements for high risk/high cost baseline estimates.

General Goal 7: Nuclear Waste - *Applied*

Activities conducted on the long-term storage of high level nuclear waste at a permanent underground repository.

Other Defense Activities: Applied & Development – *Applied & Development*

Activities related to systems development that may be used or shared with other federal agencies and private industry as well as activities related to the protection of the Nation's energy infrastructure.

Required Supplementary Information (RSI)

(unaudited)

This section of the report provides required supplementary information for the Department on deferred maintenance, budgetary resources by major budget account and intra-governmental balances.

Deferred Maintenance

Deferred maintenance information is a requirement under SFFAS No.6, *Accounting for Property, Plant and Equipment* and SFFAS No.14, *Amendments to Deferred Maintenance* which requires deferred maintenance to be disclosed as of the end of each fiscal year. Deferred maintenance is defined in SFFAS No.6 as "maintenance that was not performed when it should have been or was scheduled to be and which, therefore, is put off or delayed for a future period." Estimates were developed for:

Buildings and Other Structures and Facilities	$3,599 million
Capital Equipment	$79 million
TOTAL	$3,678 million

Buildings and Other Structures and Facilities

The condition assessment survey (periodic inspections) method was used in measuring a deferred maintenance estimate for buildings and other structures and facilities except for some structures and facilities where a physical barrier was present (e.g., underground pipe systems). In those cases, where a deficiency is identified during normal operations and correction of the deficiency is past due, a deferred maintenance estimate would be applicable. Also, where appropriate, results from previous condition assessments have been adjusted to estimate current plant conditions. Deferred maintenance for excess property was reported only in situations where maintenance is needed for worker and public health and safety concerns.

The Department determines deferred maintenance and acceptable operating condition through various methods, including periodic condition assessments, physical inspections, review of work orders, manufacturer and engineering specification.

As of September 30, 2005, an amount of $3,599 million of deferred maintenance was estimated to be required to return the facilities to acceptable operating condition. The percentage of active buildings above acceptable operating condition is estimated at 69 percent.

Capital Equipment

Pursuant to the cost/benefit considerations provided in SFFAS No. 6, the Department has determined that the requirements for deferred maintenance reporting on personal property (capital equipment) is not applicable to property items with an acquisition cost of less than $100,000, except in situations where maintenance is needed to address worker and public health and safety concerns.

Various methods were used for measuring deferred maintenance and determining acceptable operating condition for the Department's capital equipment including periodic condition assessments, physical inspections, review of work orders, manufacturer and engineering specification, and other methods, as appropriate.

An amount of $79 million of deferred maintenance was estimated to be needed as of September 30, 2005, to return capital equipment assets to acceptable operating condition.

Budgetary Resources by Major Account For the Year Ended September 30, 2005 (in millions)

	Fossil Energy R&D 89X0213	Energy Conservation 89X0215	Science 89X0222	Energy Supply 89-0224	Weapons Activities 89-0240
BUDGETARY RESOURCES					
Budgetary Authority	$ 569	$ 870	$ 3,664	$ 950	$ 6,675
Unobligated Balance, Net - Beginning of Period	545	16	13	69	845
Spending Authority from Offsetting Collections		1		761	2,492
Recoveries of Prior Year Obligations	9	1	1	8	
Authority Permanently Not Available	(8)	(11)	(29)	(13)	(50)
Total Budgetary Resources	$ 1,115	$ 877	$ 3,649	$ 1,775	$ 9,962
STATUS OF BUDGETARY RESOURCES					
Obligations Incurred	$ 514	$ 861	$ 3,621	$ 1,746	$ 8,869
Unobligated Balances Available	594	16	28	29	874
Unobligated Balances Not Available	7				219
Total Status of Budgetary Resources	$ 1,115	$ 877	$ 3,649	$ 1,775	$ 9,962
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS					
Obligated Balance, Net - Beginning of Period	$ 478	$ 617	$ 2,059	$ 604	$ 1,574
Obligated Balance, Net - End of Period	482	592	2,194	696	1,509
Outlays	500	884	3,486	885	6,442
Less: Offsetting Receipts					
Net Outlays	$ 500	$ 884	$ 3,486	$ 885	$ 6,442

	Other Defense Activities 89-0243	Defense Environmental Services 89X0249	Defense Site Acceleration Completion 89-0251	Defense Nuclear Nonproliferation 89-0309	Naval Reactors 89X0314
BUDGETARY RESOURCES					
Budgetary Authority	$ 693	$ 938	$ 5,920	$ 1,519	$ 808
Unobligated Balance, Net - Beginning of Period	19	90	25	506	2
Spending Authority from Offsetting Collections				13	
Recoveries of Prior Year Obligations	3	1	2	3	
Authority Permanently Not Available	(6)	(8)	(49)	(15)	(6)
Total Budgetary Resources	$ 709	$ 1,021	$ 5,898	$ 2,026	$ 804
STATUS OF BUDGETARY RESOURCES					
Obligations Incurred	$ 653	$ 997	$ 5,877	$ 1,450	$ 801
Unobligated Balances Available	55	24	21	571	3
Unobligated Balances Not Available	1			5	
Total Status of Budgetary Resources	$ 709	$ 1,021	$ 5,898	$ 2,026	$ 804
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS					
Obligated Balance, Net - Beginning of Period	$ 448	$ 288	$ 2,522	$ 969	$ 246
Obligated Balance, Net - End of Period	343	330	2,118	1,088	296
Outlays	756	954	6,278	1,316	750
Less: Offsetting Receipts					
Net Outlays	$ 756	$ 954	$ 6,278	$ 1,316	$ 750

	Bonneville Power Administration 89X4045	Western Area Power Administration 89X5068	United States Enrichment Corporation Fund 95X4054	All Other Appropriations	Combined Statement of Budgetary Resources
BUDGETARY RESOURCES					
Budgetary Authority	$ 1,260	$ 173		$ 2,523	$ 26,562
Unobligated Balance, Net Beginning of Period		85	1,350	473	4,038
Spending Authority from Offsetting Collections	3,302	327	33	668	7,597
Recoveries of Prior Year Obligations				6	34
Authority Temporarily Not Available		(1)		(265)	(266)
Authority Permanently Not Available	(1,639)			(14)	(1,848)
Total Budgetary Resources	$ 2,923	$ 584	$ 1,383	$ 3,391	$ 36,117
STATUS OF BUDGETARY RESOURCES					
Obligations Incurred	$ 2,923	$ 490		$ 3,074	$ 31,876
Unobligated Balances Available		94		303	2,612
Unobligated Balances Not Available			1,383	14	1,629
Total Status of Budgetary Resources	$ 2,923	$ 584	$ 1,383	$ 3,391	$ 36,117
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS					
Obligated Balance, Net - Beginning of Period	$ 1,804	$ 220		$ 1,074	$ 12,903
Obligated Balance, Net - End of Period	1,580	133		1,184	12,545
Outlays	(155)	249	(33)	2,291	24,603
Less: Offsetting Receipts				(3,236)	(3,236)
Net Outlays	$ (155)	$ 249	$ (33)	$ (945)	$ 21,367

AUDITOR'S REPORT

Memorandum from the Inspector General

Department of Energy
Washington, DC 20585
November 14, 2005

MEMORANDUM FOR THE SECRETARY

FROM: Gregory H. Friedman
Inspector General

SUBJECT: <u>INFORMATION:</u> Report on the Department of Energy's Fiscal Year 2005 Consolidated Financial Statements

In response to requirements established by the Government Management Reform Act of 1994, the Office of Inspector General engaged the independent public accounting firm of KPMG LLP to perform the annual audit of the Department of Energy's consolidated financial statements. Audit work performed by the contract auditor identified significant deficiencies in financial management and reporting controls related to the Department's Fiscal Year 2005 consolidated financial statements. The Department's ability to prepare accurate consolidated financial statements and supporting documentation was affected by issues such as accounting for and monitoring obligations and funds control, accounting for accruals, reconciling payment information with the U.S. Treasury, reconciling integrated contractor trial balances, resolving various posting errors, and reconciling accounting system modules to the general ledger.

These reporting and control deficiencies were caused, in large part, by problems associated with the reorganization of the Department's accounting operations and circumstances surrounding the implementation of a new Department accounting system, the Standard Accounting and Reporting System. As with any large Federal agency, the deployment of a new accounting system is a challenging and daunting task. In spite of a significant effort by personnel in the Office of the Chief Financial Officer, a number of implementation problems had not been resolved by year-end and accounting officials lacked reporting and analysis tools necessary to prevent, detect, or correct problems or errors in a timely manner. Specifically, the Department was unable to correct the previously described weaknesses and could not provide a number of supporting documents required for audit. Because of these issues, it was impracticable for our independent public accounting firm to extend audit procedures sufficiently to determine the extent to which the Department's consolidated financial statements may have been affected by these conditions. As a consequence, a disclaimer of opinion was issued on the Department's Fiscal Year 2005 consolidated financial statements.

In addition to the financial management and reporting control issues noted above, a reportable condition related to unclassified information system security continued to exist. As identified in previous financial statement audit reports, the Department had weaknesses involving the review and approval of user access privileges, password security and monitoring of networks for questionable activity. The identified weaknesses and vulnerabilities increased the risk that malicious destruction or alteration of data or unauthorized processing could occur.

With regard to the findings related to financial management and reporting controls, and those concerning information security system weaknesses, the Department generally concurred and initiated or agreed to initiate specific corrective actions.

The preparation and audit of financial statements involve many parties. The Department is responsible for preparing its consolidated financial statements, and the Office of Inspector General is responsible for the audit. As previously stated, we contracted with the auditing firm of KPMG LLP to conduct the audit. KPMG is responsible for reporting on the Department's consolidated financial statements and reporting on applicable internal controls, and compliance with laws, regulations, contracts and grant agreements. The Office of Inspector General monitored the contractor's progress and reviewed the audit report and related documentation to ensure compliance with generally accepted Government auditing standards. Due to the problems disclosed previously, the Office of Inspector General substantially augmented the audit effort with Federal personnel. The Office of Inspector General, however, did not prepare an independent report on the Department's consolidated financial statements.

I would like to thank all elements of the Department for their courtesy and cooperation during the review.

Attachment

cc: Deputy Secretary
Under Secretary for Energy, Science and Environment
Administrator, National Nuclear Security Administration
Chief of Staff
Chief Financial Officer

Audit Report: DOE/OAS-FS-06-01

Independent Auditors' Report

KPMG LLP
2001 M Street, NW
Washington, DC 20036

INDEPENDENT AUDITORS' REPORT

The Inspector General, United States Department of Energy and
The Secretary, United States Department of Energy:

We were engaged to audit the accompanying consolidated balance sheet of the United States Department of Energy (Department) as of September 30, 2005, and the related consolidated statements of net cost, changes in net position, financing, and custodial activities, and the related combined statement of budgetary resources (hereinafter referred to as "fiscal year 2005 consolidated financial statements"), for the year then ended. In connection with our fiscal year 2005 engagement, we were also engaged to consider the Department's internal control over financial reporting and to test the Department's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on its consolidated financial statements.

We have audited the accompanying consolidated balance sheet of the United States Department of Energy as of September 30, 2004, and the related consolidated statements of net cost, changes in net position, financing, and custodial activities, and the related combined statement of budgetary resources (hereinafter referred to as "fiscal year 2004 consolidated financial statements"), for the year then ended. As discussed in this report, the Department's power administrations, whose Department-related financial data as of and for the year ended September 30, 2004 are included in the accompanying fiscal year 2004 consolidated financial statements, were audited by other auditors whose reports have been furnished to us and were considered in forming our overall opinion on the Department's fiscal year 2004 consolidated financial statements.

Summary

As stated in our report on the consolidated financial statements, the scope of our work was not sufficient to enable us to express an opinion on the Department's consolidated financial statements as of and for the year ended September 30, 2005. Regarding the fiscal year 2004 consolidated financial statements, we concluded, based upon our audit and the reports of other auditors, that the Department's consolidated financial statements as of and for the year ended September 30, 2004, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

Our report emphasizes that the cost estimates supporting the Department's environmental remediation liabilities are based upon assumptions regarding future actions and decisions, many of which are beyond the Department's control.

Our fiscal year 2005 consideration of internal control over financial reporting resulted in the identification of the following two matters as reportable conditions: (1) weaknesses in financial management and reporting controls related to the fiscal year 2005 implementation of the Department's new accounting system, combined with the restructuring and consolidation of its finance and accounting services organization and adoption of a new chart of accounts; and (2) weaknesses in the Department's unclassified network and information systems security. We consider the first matter to be a material weakness.

The results of our fiscal year 2005 tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, exclusive of those referred to in the *Federal Financial Management Improvement Act of* 1996 (FFMIA), disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The results of our tests of FFMIA disclosed that the Department's financial management systems did not substantially comply with the federal financial management systems and accounting standards requirements, as a result of the Department's inability to prepare timely and accurate financial statements and supporting data for audit. This matter is related to the material weakness in internal controls, described above.

Had we been able to perform all of the procedures necessary to express an opinion on the Department's fiscal year 2005 consolidated financial statements, other internal control matters and other instances of noncompliance may have been identified and reported.

The following sections discuss:

- The reasons why we are unable to express an opinion on the Department's fiscal year 2005 consolidated financial statements;
- Our report on the Department's fiscal year 2004 consolidated financial statements;
- Our consideration of the Department's internal control over financial reporting;
- Our tests of the Department's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements;
- Management's responsibilities; and
- Our responsibilities.

Report on the Consolidated Financial Statements

We were engaged to audit the accompanying consolidated balance sheet of the United States Department of Energy as of September 30, 2005, and the related consolidated statements of net cost, changes in net position, financing, and custodial activities, and the related combined statement of budgetary resources, for the year then ended.

The Department implemented a new financial accounting system in April 2005, shortly after the October 2004 reorganization and consolidation of its finance and accounting services organization. The Department also adopted a new chart of accounts in conjunction with the new accounting system. As a result of these events, the Department encountered a significant number

Independent Auditors' Report, Continued

of conversion, posting, reconciliation, and reporting issues that hindered its ability to assure the accuracy and completeness of consolidated financial statement balances and to provide data necessary for audit testing. We noted specific issues in accounting for obligations, monitoring budget execution and control, reconciling payment information with the U.S. Treasury, accounting for accruals, reconciling integrated contractor trial balances with the Department's records, reconciling accounting system modules to the general ledger, resolving various posting errors, and identifying and reporting intragovernmental transactions. We noted that many reports needed for management, internal control, and audit purposes were not available following system deployment. Finally, during fiscal year 2005, the Department restructured and consolidated its accounting operations, realigning its accounting functions across the Department and causing a negative impact on the financial accounting staffing levels and skills mix throughout the Department The Department did not complete corrective actions to address these conditions. Therefore, it was unable to provide accurate financial data and could not always provide supporting documents required for audit. It was impracticable to extend our procedures sufficiently to determine the extent to which the Department's consolidated financial statements as of and for the year ended September 30, 2005, may have been affected by these conditions.

Because of the matters discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying consolidated financial statements of the United States Department of Energy as of and for the year ended September 30, 2005.

We have audited the accompanying consolidated balance sheet of the United States Department of Energy as of September 30, 2004, and the related consolidated statements of net cost, changes in net position, financing, and custodial activities, and the related combined statement of budgetary resources, for the year then ended.

We did not audit the fiscal year 2004 financial statements of Bonneville Power Administration, Western Area Power Administration, Southwestern Power Administration, or Southeastern Power Administration, whose Department-related financial data as of and for the year ended September 30, 2004 are included in the accompanying fiscal year 2004 consolidated financial statements. When combined and compared to the Department's consolidated financial statements, the financial data for these entities represent 17 percent of total assets; 54 percent of total earned revenues; and 13 percent of total program costs as of and for the year ended September 30, 2004. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion on the fiscal year 2004 consolidated financial statements, insofar as it relates to the amounts included for Bonneville Power Administration, Western Area Power Administration, Southwestern Power Administration, and Southeastern Power Administration, is based solely upon the reports of the other auditors.

In our opinion, based upon our fiscal year 2004 audit and the reports of other auditors, the fiscal year 2004 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the United States Department of Energy as of September 30, 2004, and its net costs, changes in net position, budgetary resources, reconciliation of net costs to budgetary obligations, and custodial activities for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 14 and 16 to the consolidated financial statements, the cost estimates supporting the Department's environmental remediation liabilities of $190 billion (unaudited) and $182 billion as of September 30, 2005 and 2004, are based upon assumptions regarding future actions and decisions, many of which are beyond the Department's control.

The information in the Management's Discussion and Analysis (MD&A), Required Supplementary Stewardship Information (RSSI), and Required Supplementary Information (RSI) sections of the Department's *Fiscal Year 2005 Performance and Accountability Report* is not a required part of the consolidated financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Circular A-136, *Financial Reporting Requirements*, Part A, *Form and Content of the Performance and Accountability Report*. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. Certain information presented in the MD&A, RSSI, and RSI is based on data from the fiscal year 2005 consolidated financial statements on which we express no opinion. The Department did not include a schedule of intragovernmental amounts by trading partner in the RSI section of its *Fiscal Year 2005 Performance and Accountability Report*, as required by OMB Circular A-136. We were not required to audit the MD&A, RSSI, and RSI information and, accordingly, we express no opinion on that information.

We were engaged to conduct our fiscal year 2005 audit, and we conducted our fiscal year 2004 audit, for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information in the Consolidating Schedules section of the Department's *Fiscal Year 2005 Performance and Accountability Report* is presented for purposes of additional analysis of the consolidated financial statements, rather than to present the financial position, net costs, changes in net position, budgetary resources, reconciliation of net costs to budgetary obligations, and custodial activities of the Department's components individually. The fiscal year 2005 information in the Consolidating Schedules section is based on the fiscal year 2005 consolidated financial statements on which we express no opinion, and accordingly, we express no opinion on such information. The fiscal year 2004 information in the Consolidating Schedules section has been subjected to the auditing procedures applied in the audit of the fiscal year 2004 consolidated financial statements and, in our opinion, based upon our audit and the reports of other auditors, is fairly stated in all material respects in relation to the fiscal year 2004 consolidated financial statements taken as a whole.

The information in the Performance Results section, the Other Accompanying Information section, the Appendices, and the information presented on pages i and ii of the Department's *Fiscal Year 2005 Performance and Accountability Report* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. This information has not been subjected to the auditing procedures, except for the testing of controls over selected performance measures, described in the Responsibilities section of this report, and, accordingly, we express no opinion on it.

Independent Auditors' Report, Continued

Internal Control over Financial Reporting

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions by management in the consolidated financial statements.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

In our fiscal year 2005 engagement, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. The following reportable condition, described in more detail in Exhibit I, is considered to be a material weakness.

> ***Financial Management and Reporting Controls*** – Our work identified significant deficiencies in the Department's financial management and reporting controls that precluded the Department from preparing its fiscal year 2005 consolidated financial statements and supporting documentation in a complete and timely manner. Due primarily to issues resulting from the implementation of its new accounting system and attrition associated with the reorganization and consolidation of its finance and accounting services organization, the Department was unable to develop adequate reporting and other internal controls essential to the deployment of the new system. In addition to impairing the Department's financial reporting, the lack of these critical controls detracted from the ability of the accounting staff to complete routine accounting reconciliations and impacted the ability of the Department's officials to manage their programs and monitor the status of obligations. Continued action to address these weaknesses is needed to correct the Department's financial management and reporting problems and to improve the ability of program officials to monitor and control obligations and expenditures.

The following reportable condition, which is not considered to be a material weakness, is described in more detail in Exhibit II.

> ***Unclassified Network and Information Systems Security*** – We noted network vulnerabilities and weaknesses in access and other security controls in the Department's unclassified computer information systems. The identified weaknesses and vulnerabilities increased the risk that malicious destruction or alteration of data or unauthorized processing could occur. The Department should fully implement policies and procedures to improve its network and information systems security.

Independent Auditors' Report, Continued

The current status of the prior year reportable condition is presented in Exhibit III.

We will report on other matters involving internal control over financial management systems and its operation, and internal control over financial reporting and its operation, in separate letters.

As discussed in our report on the consolidated financial statements, the scope of our work was not sufficient to enable us to express an opinion on the Department's consolidated financial statements as of and for the year ended September 30, 2005. Had we been able to perform all of the procedures necessary to express an opinion, other matters involving internal control over financial reporting may have been identified and reported.

Compliance and Other Matters

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements described in the Responsibilities section of this report, exclusive of those referred to in the FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* and OMB Bulletin No. 01-02.

The results of our tests of FFMIA disclosed that the Department's financial management systems did not substantially comply with the federal financial management systems and accounting standards requirements, discussed in the Responsibilities section of this report, which prevented the Department from preparing timely and accurate financial statements and supporting data for audit. This matter is related to the material weakness in internal controls, described in the Internal Control over Financial Reporting section of this report, and our related recommendations and are presented in Exhibit I. The results of our tests of FFMIA disclosed no instances in which the Department's financial management systems did not substantially comply with requirements of applying the United States Government Standard General Ledger at the transaction level.

As discussed in our report on the consolidated financial statements, the scope of our work was not sufficient to enable us to express an opinion on the Department's consolidated financial statements as of and for the year ended September 30, 2005. Had we been able to perform all of the procedures necessary to express an opinion, other matters involving compliance with laws, regulations, contracts, and grant agreements may have been identified and reported.

Responsibilities

Management's Responsibilities. The *Government Management Reform Act of 1994* (GMRA), *Accountability of Tax Dollars Act*, and *Government Corporation Control Act* require agencies to report annually to Congress on their financial status and any other information needed to fairly present their financial position and results of operations. To meet these reporting requirements, the Department prepares and submits consolidated financial statements in accordance with Part A of OMB Circular A-136.

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Independent Auditors' Report, Continued

Management is responsible for the consolidated financial statements, including:

- Preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America;

- Preparing MD&A (including the performance measures), RSSI, and RSI;

- Establishing and maintaining internal controls over financial reporting; and

- Complying with laws, regulations, contracts, and grant agreements, including FFMIA.

In fulfilling this responsibility, management is required to make estimates and judgments to assess the expected benefits and related costs of internal control policies. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

Auditors' Responsibilities. As discussed in our report on the consolidated financial statements, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying consolidated financial statements of the Department as of and for the year ended September 30, 2005.

Regarding the fiscal year 2004 consolidated financial statements presented herein, our responsibility is to express an opinion on the fiscal year 2004 consolidated financial statements of the Department based upon our audit and the reports of other auditors. We conducted our fiscal year 2004 audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards,* and OMB Bulletin No. 01-02. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;

- Assessing the accounting principles used and significant estimates made by management; and

- Evaluating the overall consolidated financial statement presentation.

We believe that our fiscal year 2004 audit and the reports of other auditors provide a reasonable basis for our opinion on the Department's fiscal year 2004 consolidated financial statements.

In connection with our fiscal year 2005 engagement, we considered the Department's internal control over financial reporting by obtaining an understanding of the Department's internal

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control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls to determine our procedures. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. Further, had we been able to perform all of the procedures necessary to express an opinion on the Department's fiscal year 2005 consolidated financial statements, other matters involving internal control over financial reporting may have been identified and reported. The objective of our engagement was not to provide assurance on internal control over financial reporting. Consequently, we do not provide an opinion thereon.

As required by OMB Bulletin No. 01-02, in fiscal year 2005, we considered the Department's internal control over the RSSI by obtaining an understanding of the Department's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. Had we been able to perform all of the procedures necessary to express an opinion on the Department's fiscal year 2005 consolidated financial statements, other matters involving internal control over the RSSI may have been identified and reported. Our procedures were not designed to provide assurance on internal control over the RSSI and, accordingly, we do not provide an opinion thereon.

As further required by OMB Bulletin No. 01-02, with respect to internal control related to performance measures determined by management to be key and reported in MD&A, in fiscal year 2005, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Had we been able to perform all of the procedures necessary to express an opinion on the Department's fiscal year 2005 consolidated financial statements, other matters involving internal control over performance measures may have been identified and reported. Our procedures were not designed to provide assurance on internal control over performance measures and, accordingly, we do not provide an opinion thereon.

In connection with our fiscal year 2005 engagement, we performed tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the Department. Had we been able to perform all of the procedures necessary to express an opinion on the Department's fiscal year 2005 consolidated financial statements, other matters involving compliance with laws, regulations, contracts, and grant agreements may have been identified and reported. Providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our engagement and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 01-02 and FFMIA, we are required to report whether the Department's financial management systems substantially comply with (1) Federal financial management

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Independent Auditors' Report, Continued

systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

Distribution

This report is intended for the information and use of the Department's management, the Department's Office of Inspector General, OMB, the Government Accountability Office, and the United States Congress, and is not intended to be used and should not be used by anyone other than these specified parties.

KPMG LLP

November 9, 2005

Financial Management and Reporting Controls

Our work identified significant deficiencies in the Department's financial management and reporting controls, collectively constituting a material weakness in internal control, that precluded the Department from preparing its fiscal year 2005 consolidated financial statements and supporting documentation in a complete and timely manner. Despite substantial effort by the Chief Financial Officer's staff, the Department was unable to correct these deficiencies in a timely manner and, as a consequence, we issued a disclaimer of opinion on the Department's fiscal year 2005 consolidated financial statements.

The Department has encountered a number of challenges resulting from the fiscal year 2005 implementation of its new accounting system, the Standard Accounting and Reporting System (STARS), consolidation and realignment of its financial and accounting services organization, and the adoption of a new chart of accounts. Specifically, in October 2004, the Department centralized certain operations previously performed by multiple field offices and accounting service centers and restructured its overall financial and accounting services organization. These changes, coupled with higher than normal attrition, had a negative impact on the financial accounting staffing levels and skills mix throughout the Department. Shortly thereafter, in April 2005, the Department implemented STARS and a new chart of accounts.

While the Department conducted extensive STARS pre-deployment testing, it encountered implementation issues related to converting data from its legacy accounting system, developing new accounting processes to effectively use the new system, and identifying related reporting requirements. The Department's new financial and accounting services organization was unable to fully address many of these implementation issues prior to September 30, 2005. Reports needed for management, control, and audit purposes were not available following STARS deployment, and a number of system reconciliations remained incomplete. Furthermore, new STARS-specific accounting processes had not been fully documented, and operational control procedures were not yet being performed routinely. Problems resulting from the lack of these critical controls significantly delayed preparation of the fiscal year 2005 consolidated financial statements and supporting data, and impacted the ability of management officials to monitor and control their budgets. The Department recognized these issues and classified financial control and reporting as a reportable problem in its *Federal Managers' Financial Integrity Act* assurance statement for fiscal year 2005, and as a non-compliance matter in its *Federal Financial Management Improvement Act* reporting.

Specifically, we noted the following issue areas:

Obligations, budget execution and funds control – We found unreconciled differences between the general ledger, subsidiary modules, and various other information systems used to manage obligation and cost data. Some field organizations entered and controlled obligations using separate information systems (feeder systems) that interface with the STARS purchase order module, while others recorded obligation data directly in the purchase order module. Some sites summarized transactions for posting in a manner that prevented the obligation data in STARS from being readily traced or reconciled to source documents. In addition, because the sites had not fully developed control procedures unique to their feeder systems and data entry methods, they could not ensure the accuracy of obligation data through timely reconciliation to the STARS general ledger totals. STARS data is needed for official funds control purposes. Without routine reconciliations, there is significant risk that the obligations reported in the Department's consolidated financial statements may be misstated and that field office and program managers may be using incomplete or inaccurate data for financial management decisions. Field offices also reported that they cannot identify and resolve some differences between STARS and contract file data. Because of the unexplained differences, several field offices expressed concerns regarding the accuracy of their uncosted and unpaid obligations balances, which adversely affected their ability to monitor and control their budgets. These and other program officials also expressed concerns regarding incorrect conversion of legacy system data, potential funds distribution errors, and inappropriate accrual of interest penalties. Finally, a number of program officials said that they needed additional training in using available reporting tools to monitor obligations and expenditures.

Payments – The Department has had difficulty reconciling its disbursement and collection activity with the U.S. Treasury's records since April 2005. STARS permits processing of payment transactions in excess of recorded costs. While this feature provides flexibility by permitting the posting of transactions prior to final cost allocation decisions, it also imposes the burden of ensuring that differences are promptly investigated and resolved. We also noted that when steps in the voided payment process were performed out of sequence, the resulting payments may not be recorded in the general ledger. These payment reconciliation issues have significantly complicated and delayed efforts to verify the accuracy of the Fund Balance with Treasury account. Because of these difficulties, the Department's submissions to Treasury and OMB as of June 30, 2005, were based on estimated disbursement data. In September, corrected SF-224s, *Monthly Statement of Transactions*, were submitted to Treasury for the period April through June 2005. The Department was unable to complete its September 2005 Fund Balance with Treasury reconciliation until November 4, which was after submission of the draft fiscal year 2005 consolidated financial statements for audit purposes.

Accruals – In fiscal year 2005, the Department implemented a revised process for field offices to submit accruals to Headquarters for costs incurred when invoices had not yet been received. We tested this process as of June 30, 2005, and determined that the recorded accrual data was unreliable. We identified accruals submitted by field offices that were either not entered or were duplicated in STARS, or were recorded inaccurately. We also noted accruals recorded prior to April 1, 2005, that had not been reversed, and a significant number of accruals that should have been recorded but were not identified by the field offices. These issues were not fully resolved by year-end. Additional issues arose during the year-end accrual process that required the CFO to request revised accruals from field offices in mid-October, which was too late to subject such accruals to audit testing. Finally, the year-end grant accrual validation process was not performed effectively.

Integrated contractor trial balances – A number of unreconciled differences existed between STARS and the separate financial systems maintained by the Department's integrated contractors. A task force formed to identify and resolve these differences found that they resulted from errors in data conversion and incomplete reconciliation and cross-walk instructions. While the Department believes that substantially all of the remaining differences resulted from misclassifications of data between contractors and field office reporting units - misclassifications that do not affect the accuracy of the consolidated financial statements - it had not completed most of the reconciliations for individual contractors, and the effect of the remaining corrections on the consolidated financial statements was not known. The Department plans to implement routine contractor trial balance reconciliations after these issues are resolved.

Reconciliation of data – Data conversion and operational problems created out-of-balance conditions between the STARS purchase order, accounts payable, accounts receivable, and fixed assets modules and the general ledger. The Department identified a number of reconciling differences and adjustments, but had not completed reconciliations of all modules to the general ledger as of September 30, 2005. Once these are completed, the Department intends to implement procedures and controls to ensure that the module reconciliations are performed routinely. In addition, the Department reported that several hundred general ledger posting errors identified by STARS edit routines were unresolved as of the date of our report. Although the Department implemented system changes to prevent many of these errors from recurring, it had not completed review and correction of unresolved errors. The Department requires field offices to resolve many of these errors, but staffing levels were not adequate to complete the work prior to the date the Department prepared its consolidated financial statements. In addition, new procedures and user reports are needed in some areas to record valid accounting transactions, such as transferring internal use software from construction in process to completed property accounts, entries that were rejected by STARS during processing. Prompt resolution of data posting errors is an essential component of financial data integrity, and its absence could make the safeguards against misappropriation or unauthorized use of funds less effective.

Identifying and reporting intragovernmental transactions – The Department developed new procedures to use with STARS to identify and code intragovernmental transactions by trading partner. OMB Circular A-136 requires Federal agencies to separately report intragovernmental balances in their financial statements and to report intragovernmental balances by trading partner as required supplementary information. Various coding and reporting issues were identified by the Department and through our testing, including issues with the program logic for extracting trading partner information and inaccuracies in the vendor and customer tables. Because of these issues, the Department did not prepare the required schedule of intragovernmental balances by trading partner for inclusion in its *Fiscal Year 2005 Performance and Accountability Report*.

Independent Auditors' Report
Exhibit I – Material Weakness, Continued

Recommendations:

We recommend that the CFO ensure that the Department:

1. Continues to improve accounting operations and controls related to STARS deployment, with an emphasis on:

   - Reconciling the general ledger to subsidiary ledgers and feeder systems;
   - Reconciling contractor trial balances to the general ledger;
   - Improving its controls for recording and accepting valid payment and obligations transactions;
   - Accounting for and recording accruals;
   - Classifying and reporting intragovernmental transactions;
   - Developing revised or additional reports for program officials to use to monitor and control budgets;
   - Performing data reconciliations routinely; and
   - Resolving error conditions;

2. Fully documents the business processes and controls required for the accurate and timely operation of the STARS system;

3. Implements routine controls; and

4. Provides additional training to its accounting staff and program officials.

Management's Response:

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings and its comments were responsive to our recommendations.

Unclassified Network and Information Systems Security

The Department maintains a series of interconnected unclassified networks and information systems. Federal and Departmental directives require the establishment and maintenance of security over unclassified information systems, including financial management systems. Past audits identified significant weaknesses in selected systems and devices attached to the computer networks at some Department sites. The Department has implemented corrective actions to improve network security at the sites we, and the Department's Office of Independent Oversight and Performance Assurance (OA), reviewed in prior years. However, we and the OA continued to identify network security weaknesses at sites reviewed in fiscal year 2005, and the frequency and severity of those weaknesses remained consistent with our prior year findings. The Department recognizes these weaknesses and has classified cyber security as a significant issue in its *Federal Managers' Financial Integrity Act* assurance statement for fiscal year 2005. Significant improvements are still needed in the areas of password management, configuration management, and restriction of network services.

Our fiscal year 2005 audit also disclosed weaknesses in access at several sites, similar to our prior year findings. Specifically, we noted weaknesses in the review and approval of user access privileges, password security, and monitoring of networks for questionable activity. Further, the Department's Office of Inspector General also reported deficiencies in the Department's network and information system risk management, configuration management, and access controls in its evaluation report on *The Department's Unclassified Cyber Security Program*, dated September 2005. Matters discussed in that report included an examination of non-financial systems.

The Department has acknowledged the need to improve its information systems security and other information technology controls. In fiscal year 2005, the Department's Chief Information Officer (CIO) continued the implementation of initiatives from the prior years to identify the root causes of the control weaknesses and to develop new policies and procedures to strengthen controls and reduce network vulnerabilities. The Department also recently initiated its Cyber Security Improvement Initiative. This is a collaborative effort between the Office of the CIO (OCIO), OA, and the various program offices to conduct joint site visits to identify and resolve cyber security problems, provide site assistance, and follow-up on corrective actions. Once fully implemented, these initiatives and new policies and procedures should strengthen the Department's overall cyber security program.

The identified weaknesses in network vulnerabilities and access controls increase the risk that malicious destruction or alteration of data or unauthorized processing could occur. Because of our concerns, we performed supplemental procedures and identified compensating controls that mitigate the potential effect of these security weaknesses on the integrity of the Department's financial systems.

Recommendation:

While progress has been achieved, continued focus is needed to resolve the vulnerability and access weaknesses described above. Therefore, we recommend that the program officials, in conjunction with the CIO, fully implement policies and procedures to ensure that the Federal information security standards are met and that networks and information systems are adequately protected against unauthorized access.

Detailed recommendations to address the issues discussed above have been separately reported to the program offices and the OCIO.

Management's Response:

Management has prepared an official response presented as a separate attachment to this report. In summary, management agreed with our findings and its comments were responsive to our recommendation.

Independent Auditors' Report
Exhibit III – Status of the Prior Year Audit Finding

Reportable Condition from Fiscal Year 2004 (with parenthetical disclosure of year first reported)	Status at September 30, 2005
Unclassified Information Systems Security (1999)	Still reported in Exhibit II as a reportable condition.

Management's Response to Auditors' Recommendations

Department of Energy
Washington, DC 20585

November 10, 2005

KPMG LLP
2001 M Street, NW
Washington, DC 20036

I am providing this letter in connection with your audit of the United States Department of Energy (Department) consolidated balance sheets as of September 30, 2005 and 2004, and the related consolidated statements of net costs, changes in net position, financing, and custodial activities, and the related combined statements of budgetary resources, for the years then ended. We have reviewed your Independent Auditors' Report and provide the following responses to your recommendations.

Reportable Problem: Financial Management and Reporting Controls

Auditors' Recommendations:

We recommend that the CFO ensure that the Department:

1. Continues to improve accounting operations and controls related to STARS deployment, with an emphasis on:
    - Reconciling the general ledger to subsidiary ledgers and feeder systems;
    - Reconciling contractor trial balances to the general ledger;
    - Improving its controls for recording and accepting valid payment and obligations transactions;
    - Accounting for and recording accruals;
    - Classifying and reporting intragovernmental transactions;
    - Developing revised or additional reports for program officials to use to monitor and control budgets;
    - Performing data reconciliations routinely; and
    - Resolving error conditions.
2. Fully documents the business processes and controls required for the accurate and timely operation of the STARS system;
3. Implements routine controls; and
4. Provides additional training to its accounting staff and program officials.

Management Response:

As Chief Financial Officer (CFO), I concur with your findings and recommendations. The reportable condition on Financial Management and Reporting Controls is considered to be a material weakness for financial statement audit purposes and the Department considers this a significant issue as a reportable condition under the Federal Managers' Financial Integrity Act.

I am in full agreement with the above-listed recommendations. While progress has been made in some of the issue areas; e.g., module to general ledger reconciliations, integrated contractor reconciliations, and correction of legacy system data conversion errors, considerable work remains to be done to fully resolve all outstanding substantive issue areas, including those specifically identified in your recommendations. The Department's leadership is fully committed to resolving these issue areas on an accelerated basis. On October 27th I established a cross-discipline, dedicated CFO Issues Resolution Tiger Team and designated a senior-level executive, in whom I have utmost confidence, to lead this effort. Team membership is comprised of top-quality employees from Headquarters and field offices that bring the expertise, perspective, and commitment prerequisite to achieving success on this highly time-sensitive project. The root causes for the outstanding issues and implementation of appropriate solution sets at the earliest possible point in time will ensure we move toward processing our FY 2006 transactions and related reporting.

This Team is specifically charged with developing an executable, integrated Plan of Action and Milestones (POA&M) for both short-term and long-range solutions. We will be implementing an issue tracking process, analyzing issues for root cause, formulating corrective action teams, and utilizing an integrated approach to problem resolution. The overall goal is to develop a clear path forward that will lead to short-term fixes to immediate operational problems as well as some fundamental changes in the way we do business in the long run.

You have my assurance that I will personally monitor actual progress against the POA&M and that the areas of emphasis on continuing to improve accounting operations and controls related to STARS deployment will be top priorities, as well as fully documenting business processes and controls, implementing routine controls, and providing additional training to the Department's accounting staff and program officials.

The Secretary and the Deputy Secretary share my commitment to resolving all of the issues and problems that contributed to this Reportable Problem on Financial Management and Reporting Controls.

Reportable Condition: Unclassified Network and Information Systems Security

Auditors' Recommendation:

While progress has been achieved, continued focus is needed to resolve the vulnerability and access weaknesses described above. Therefore, we recommend that the program officials, in conjunction with the CIO, fully implement policies and procedures to ensure that the Federal information security standards are met and that networks and information systems are adequately protected against unauthorized access.

Management Response:

The Chief Information Officer (CIO) concurs with the auditors' recommendation that full implementation of policies and procedures by the CIO and program officials is necessary to ensure that the Federal information security standards are met and that networks and information systems are adequately protected against unauthorized access. Toward that end, four basic program areas have been established.

1. Departmental Program Direction and Guidance

This area addresses the essential management processes that must be established or modified to provide for a strategic, integrated approach to DOE cyber security. The outcome is expected to be a common management and policy framework, based on national consensus standards, which must be adhered to by all organizational elements before considering any added controls that might be necessary to effectively protect information and information systems for which they have responsibility. It includes recommendations related to corporate-level planning, policy setting, and program governance.

2. Program Support Mechanisms

This area addresses programmatic elements that must be established or enhanced, primarily by the Office of the CIO, to enable and better assist line managers in implementing effective cyber security programs. It includes improvements in threat assessments, communications, identification and procurement of technical tools, incident response, training, and field assistance.

3. Line Management Implementation

This area addresses actions required of line managers to ensure cyber security program effectiveness and includes improved senior management involvement, staffing and budgeting, roles and responsibilities, and the flow down of cyber security requirements.

4. Performance Measurement and Accountability

This area addresses the management processes necessary to ensure that the DOE cyber security program is achieving the desired results and, if not, to strengthen or redirect efforts to improve performance, including performance metrics, progress reporting, and progress reporting of cyber security performance.

The leadership of the Department is committed to improving the cyber security posture of its information systems, including its financial systems. This management response leverages the corporate strength of the entire Department toward the end state of improved security.

Sincerely,

Susan J. Grant

Susan J. Grant
Chief Financial Officer

OTHER ACCOMPANYING INFORMATION

Inspector General's Management & Performance Challenges

For the past several years, the Office of Inspector General has identified what it considers to be the most significant management and performance challenges facing the Department of Energy. This annual effort, now codified as part of the Reports Consolidation Act of 2000, reflects new work performed by the Office of Inspector General, assesses the agency's progress in addressing previously identified challenges, and considers emerging issues facing the Department.

In 2005, we identified seven management challenges: National Security, Environmental Cleanup, Stockpile Stewardship, Contract Administration, Project Management, Information Technology, and Financial Control and Reporting. These challenges represent both the risks inherent to the Department's complex operations and those related to the Department's management processes for achieving its missions. For the most part, these challenges are not amenable to near-term resolution and can only be addressed by a concerted, persistent effort, resulting in progress over a long period of time. In addition to the seven management challenges, we have included energy supply, worker and community safety and human capital on our "watch list". These operational and programmatic functions do not warrant classification as a management challenge, but need to be closely monitored by Department management. The Inspector General looks forward to working with the Department's senior staff in a continuing effort to improve Department programs and operation, particularly as they relate to the management challenge areas.

National Security

The Department plays a vital role in the Nation's security by ensuring nuclear weapon safety, promoting international nuclear safety, advancing nuclear non-proliferation, and providing safe and effective nuclear power plants for the United States Navy. During FY 2005, the Department increased the level of security through a number of measures, including additional barriers and limiting personnel access to key areas. Although the Department has continued to make progress in addressing security issues, our audits and inspections have underscored the need for continued vigilance. For example, a review of security access controls at the Y-12 National Security Complex found that foreign construction workers using false identification documents gained access to the site on multiple occasions.

Environmental Cleanup

The Department is responsible for cleaning contaminated sites and disposing of radioactive waste from nuclear weapons production, nuclear powered navy vessels, and commercial energy production. This long-term effort requires the Department management's continued attention and significant resources to resolve the issues addressed in our audit work. In an audit of deactivation and decommissioning activities at the Savannah River Site, we reported that the site did not always provide a reduction in environmental risk. In another review, we found that the Department will not meet its commitments for removing transuranic waste from the Los Alamos National Laboratory. In FY 2005, the Department continued to make strides in addressing the inherent risks associated with this challenge. Most notably, the Rocky Flats Site completed its last transuranic waste shipment in April 2005 and completed most of the work required to close the site by the end of FY 2005.

Stockpile Stewardship

The Department's Stockpile Stewardship Program is responsible for maintaining the safety, reliability, and performance of the nation's nuclear weapons stockpile in the absence of underground nuclear testing. The Department faces project management issues related to cost, schedule, and scope of the various projects supporting its stockpile stewardship mission. Our FY 2005 work identified that the National Nuclear Security Administration (NNSA) risks not achieving the first production unit for the B61 refurbishment within the original schedule and scope specifications. To its credit, NNSA management has initiated corrective actions intended to improve project management processes. These initiatives include training and certifying project managers and integrating project management criteria into various aspects of NNSA's program elements.

Contract Administration

The Department continues to face effective contract oversight as an ongoing challenge due to its significant reliance on contractors and grantees to accomplish its missions. Our FY 2005 reviews identified oversight weaknesses for areas such as funds management and claimed costs. For example, we found that certain financial management activities associated with the Idaho National Laboratory's technology transfer and commercialization program were not managed consistent with contract terms. The Department is developing a comprehensive strategy to address contract management issues raised by both the Office of Inspector General and the Government Accountability Office. This strategy includes increasing contract competition, using more effective performance objectives and measures, and instituting rigorous professional development requirements for contract management officials.

Project Management

To accomplish its missions, the Department undertakes numerous unique and complex multi-million dollar construction and operation projects. Our FY 2005 reviews identified necessary improvements to ensure that the Department's project management principles are effective and accomplishing their goals. In an audit of the Hanford Site's K Basins Spent Nuclear Fuel Project, we found that the sludge removal schedule has continued to slip and had experienced cost overruns since FY 2003. To address the project management challenges, the Department has taken specific action to help meet cost, schedule, and performance targets for major projects. For instance, DOE has been working to improve employee accountability for project performance through its SES performance appraisal system, and by the end of May 2006 a certified Federal project director must lead all departmental capital asset projects over $5 million.

Information Technology

Information Technology is vital in helping the Department fulfill its mission and provide efficient and effective services to the American people. As in past years, our reviews have highlighted internal control weaknesses that impact the improvement of information technology systems. In an audit of enterprise architecture, we found that Department contractors had not taken the necessary steps to ensure that program office architectures were complete, compatible with and supported the overall design. Also, our annual evaluation required by the Federal Information Security Management Act identified weaknesses in the Department's unclassified cyber security program. To its credit, the Department has taken steps to address the challenges associated with information technology. Beginning in 2004, all information technology projects over $5 million underwent a review requiring the Department's Chief Information Officer's certification to ensure the project's necessity and that it yielded expected results.

Financial Control and Reporting

The Office of Inspector General has identified financial control and reporting as a new management challenge. In April 2005, the Department implemented the Standard Accounting and Reporting System (STARS) – a new accounting and financial reporting system. Despite devoting substantial effort to STARS implementation, the Department has encountered significant problems impacting the annual financial statement audit and its financial management and reporting. Such problems include system posting errors, reconciling accounting data, and converting data from the previous accounting system to STARS. As of the end of FY 2005, many basic financial management reports, including those needed for audit, had not been developed or had not produced reliable or intended results. In addition, the Department had difficulty reconciling STARS data to the accounting data generated by many of its major contractors or in reconciling certain data to subsidiary ledgers. Although this is an ongoing issue, the Department has initiated efforts to resolve the problems associated with STARS. For example, software and operating procedures are being changed to address reporting and reconciliation issues.

Improper Payments Information Act Reporting Details (unaudited)

Improper Payment Outlook

As noted in the chart below, the Department's extremely low improper payment rate minimizes the Department's opportunities for future reductions and increases the likelihood of rate fluctuations as very small variations in erroneous payment dollars drives more significant changes when viewed as a rate.

Improper Payment (IP) Reduction Outlook FY 2005 – FY 2008 ($ in millions)						
Class of Payment/Program	FY 2005 Outlays/Payments	FY 2005 IP%	FY 2005 IP$	FY 2006 IP%	FY 2007 IP%	FY 2008 IP%
Payroll	$ 7,527	.04	3.0	<.25	<.25	<.25
Travel	$ 257	.16	0.5	<.25	<.25	<.25
Vendors	$ 15,913	.07	11.0	<.25	<.25	<.25
Other	$ 417	0.0	0.0	<.25	<.25	<.25

Note: Federal payroll not included due to outsourcing of this function. See footnote 1 on page one of this appendix.

Recovery Auditing

P.L. 107–107, "National Defense Authorization Act for FY 2002," requires agencies that enter into contracts with a total value in excess of $500 million in a fiscal year to carry out a cost effective program for identifying overpayments to contractors, and for recovering amounts overpaid. OMB memorandum M-03-07, "Programs to Identify and Recover Erroneous Payments," requires agencies to review their contractor payments for errors resulting in overpayments (recovery audit), take action to recover those overpayments, and report the results of these activities to OMB on an annual basis.

Recovery Auditing Statistics FY 2005 ($ in millions)	
Contractor Payments Reviewed	$ 11,387
Contractor Overpayments Identified	$ 10.6
Overpayments Recovered	$ 9.5
Overpayments Pending Recovery	$ 1.05
Overpayments Not Recoverable	$ .055
Total Cost of Recovery Audit Program	$ .379
Departmental Costs	$ .260
Recovery Auditing Contractor Costs	$ .119

Other Statutory Reporting

Management's Response to Audit Reports

Pursuant to the *Inspector General Act Amendments* of 1988 (Public Law 100-504), agency heads are to report to Congress on the status of final action taken on audit report recommendations. This report complements a report prepared by the Department's Office of Inspector General (IG) that provides information on audit reports issued during the period and on the status of management decisions made on previously issued IG audit reports.

Inspector General Audit Reports

The Department responds to audit reports by evaluating the recommendations they contain, formally responding to the IG, and implementing agreed upon corrective actions. In some instances, we are able to take corrective action immediately and in others, action plans with long-term milestones are developed and implemented. The audit resolution and follow-up process is an integral part of the Department's effort to deliver its priorities more effectively and at the least cost. Actions taken by management on audit recommendations increase both the efficiency and effectiveness of our operations and strengthen our standards of accountability.

During FY 2005, the Department took final action on 58 IG reports with the agreed upon actions including final action on eight IG operational, financial, and pre-award audit reports with funds put to better use. At the end of the period, 96 reports awaited final action.

Status of Final Action on IG Audit Reports for FY 2005

The following chart provides more detail on the audit reports with open actions and the dollar value of recommendations and funds "put to better use" that were agreed to by management.

Audit Reports	Number of Reports	Agreed-Upon Funds Put to Better Use (in Millions)
Pending final action at the beginning of the period	94	$ 1,099
With actions agreed upon during the period	58	$ .079
Total pending final action	152	$ 1,099
Achieving final action during the period	56	$ 417*
Requiring final action at the and of the period	96	$ 683

*** Reflects a single amount also included in the IG's semi-annual report.**

Inspector General's Contract Audit Reports

To begin this period, final action had not been taken on one IG contract audit report. At the end of the fiscal year, there is one contract audit report pending final action.

Contract Audit Reports Statistical Table FY 2005

Total Number of IG Contract Audit Reports (Contract and Financial Assistance) and the dollar value of disallowed costs:

	Number of Reports	Disallowed Costs*
Contract audit reports with management decisions on which final action had not been taken at the beginning of the period	1	N/A
Contract audit reports issued on which management decisions were made during the period	-	N/A
Total contract audit reports pending final action during the period	-	N/A
Contract audit reports on which final action was taken during the period		
Recoveries	-	$-
Reinstatements	-	$-
Totals	-	$-
Contract audit reports needing final action at the end of the period	1	0

*** The amount of costs questioned in the audit report with which the contracting officer concurs and has disallowed as a claim against the contract. Recoveries of disallowed costs are usually obtained by offset against current claims for payment and subsequently used for payment of other eligible costs under the contract.**

Government Accountability Office Audit Reports

The U.S. Government Accountability Office (GAO) audits are a major component of the Department's audit follow-up program. At the beginning of FY 2005 there were 36 GAO audit reports awaiting final action. During FY 2005, the Department received 29 additional final GAO audit reports, of which 12 required tracking of corrective actions and 17 did not because the reports did not include actions to be taken by the Department. The Department completed agreed-upon corrective actions on 14 audit reports during FY 2005, leaving 34 GAO reports awaiting final action at year end.

Appendices

GLOSSARY OF ACRONYMS

A

ABWR ....Advanced Boiling Water Reactor
ADAPT ....Advanced Design and Production Technology
ADP ....Advanced Data Processing
AEP ....American Electric Power
AFCI ....Advanced Fuel Cycle Initiative
AFV ....Alternative Fuel Vehicles
AGR ....Advanced Gas Reactor
ALRC ....Albany Research Center
Am ....Americium
AMWTP ....Advanced Mixed Waste Treatment Project
ANL ....Argonne National Laboratory
ANL-W ....Argonne National Laboratory –West
APEC ....Asian Pacific Economic Cooperation
APP ....Annual Performance Plan
AP600 ....Advanced Pressurized Water Reactor 600
ARES ....Advanced Reciprocating Engine System
ARM ....Atmospheric Radiation Measurement
ASC ....Advanced Simulation and Computing Campaign
ASCAC..........Advanced Scientific Computing Advisory Committee
ASCI..........Advanced Simulation and Computing Initiative
ASCR ....Advanced Scientific Computing Research
ASTM ....American Society for Testing Materials
ATLAS ....A Toroidal LHC Apparatus
Argonne Tandem Linac Accelerator System
ATR ....Advanced Test Reactor
AUI..........Allowable Unpaid Investments

B

BABAR..........B and B-bar Experiment
BDMS ....Blend-Down Monitoring Systems
BER ....Biological and Environmental Research
BES..........Basic Energy Sciences
BESAC ....Basic Energy Sciences Advisory Committee
BGRR..........Brookhaven Graphite Research Reactor
BLS..........Bureau of Labor and Statistics
BNL ....Brookhaven National Laboratory
BOP ....Balance of Plant
BPA ....Bonneville Power Administration
BTU ....British Thermal Unit
BWR ....Boiling Water Reactor

C

C2 .... Command and Control
CALM .... Capability for Advanced Loading Missions
CANDU .... Canada Deuterium Uranium
CAP .... Corrective Action Plan
CAR .... Cooperative Automotive Research
CBC .... Consolidated Business Center
CBFO .... Carlsbad Field Office
CCPI .... Clean Coal Power Initiative
CD .... Critical Decision
CDF .... Collider Detector at Fermi National Accelerator Laboratory
CEAR .... Certificate of Excellence in Accountability Reporting
CEBAF .... Continuous Electron Beam Accelerator Facility
CERT .... Council of Energy Resource Tribes
CERTS .... Consortium for Electric Reliability Technology Solution
CF .... Carbon Fibers
CFD .... Computational Fluid Dynamics
CFF .... Container Firing Facility
CFO .... Chief Financial Officer
CHP .... Combined Heat and Power
CIO .... Chief Information Officer
Cm .... Curium
CMAC .... Contract Management Advisory Council
CMRR .... Chemistry and Metallurgy Research Facility Replacement
CMS .... Compact Muon Solenoid
Centers for Medicare and Medicaid Services
CO2 .... Carbon Dioxide
COC .... Coso Operating Company
COE .... Cost of Energy
COL .... Construction and Operating License
COMETS .... Crude Oil Movement and Event Tracking System
CP .... Charge-Parity
CPS .... Control Performance Standards
CQPR .... Consolidated Quarterly Performance Results
CRADA .... Cooperative Research and Development Agreement
CREM .... Controlled Removable Electronic Media
CSRS .... Civil Service Retirement System
CY .... Calendar Year

D

D&D .... Decontamination and Decommissioning
D&I .... Disassembly and Inspection
DARHT .... Dual-Axis Radiographic Hydrotest
DBT .... Design Basis Threat
DEMP .... Departmental Energy Management Program
DER .... Distributed Energy Resource
DG .... Distributed Generation

DNA .... Deoxyribonucleic Acid
DNS .... Defense Nuclear Security
DOD .... Department of Defense
DOE .... Department of Energy
DP .... Defense Programs
DRAAG .... Design Review and Acceptance Group
DSP .... Defense Support Program
DSRP .... Direct Sulfur Recovery Process
DSW .... Directed Stockpile Work
DWD .... Diagnostics-While-Drilling

E

E&P .... Exploration and Production
EA .... Enterprise Architecture
ECP .... Electrochemical Plant
EDU .... Engineering Development Units
EECP .... Early Entrance Co-Production Plant
EER .... Engineering Evaluation Release
EE/EERE .... Office of Energy Efficiency and Renewable Energy
EGS .... Enhanced Geothermal System
EIA .... Energy Information Administration
EIPP .... Eastern Interconnection Phasor Project
EIS .... Environmental Impact Statement
EM .... Office of Environmental Management/Environmental Management
EMCAL .... Electro-Magnetic Calorimeter
EMSL .... Environmental Molecular Science Laboratory
EPA .... Environmental Protection Agency
EPR .... European Pressurized Water Reactor
EPRI .... Electric Power Research Institute
ERB-II .... Experimental Breeder Reactor II
ERDF .... Environmental Restoration Disposal Facility
ERDS .... Emergency Response Database System
ERISA .... Employee Retirement Income Security Act
ES&H .... Environment, Safety and Health
ESnet .... Energy Sciences Network
ESPC .... Energy Savings Performance Contract
EWGPP .... Elimination of Weapons Grade Plutonium Production

F

FBI .... Federal Bureau of Investigation
FCE .... Fuel Cell Energy
FCI .... Facility Condition Index
FCRPS .... Federal Columbia River Power System
FE .... Office of Fossil Energy
FEMP .... Federal Energy Management Program
FERC .... Federal Energy Regulatory Commission
FERS .... Federal Employees Retirement System

FES ....Fusion Energy Sciences
FFMIA ....Federal Financial Management Improvement Act
FFTF ....Fast Flux Test Facility
FIRP ....Facilities and Infrastructure Recapitalization Program
FISMA ....Federal Information Security Management Act
FMFIA ....Federal Managers' Financial Integrity Act
FNAL ....Fermi National Accelerator Laboratory
FSED ....Full-Scale Engineering Development
FUSRAP......................................Formerly Utilized Sites Remedial Action Program
FXR ....Flash X-Ray
FY...Fiscal Year
FYNSP ....Future-Year Nuclear Security Program

G

GAO ....Government Accountability Office
g/bhp-hr ....Grams per Brake-Horsepower-Hour
GG ....General Goal
GHASTLI ....Gas Hydrate and Sediment Test Laboratory Instrument
GHz ....Gigahertz
GMRA ....Government Management Reform Act
GPRA..Government Performance and Results Act
GPS ....Global Positioning System
GSF ....Gross Square Feet

H

H2 ....Hydrogen
HEP ....High Energy Physics
HEU..Highly Enriched Uranium
HEV ....Hybrid Electric Vehicle
Hg ....Mercury
HLHA ....Heavy Load Hour Availability
HLW ....High-Level Radioactive Waste
HMO ....Health Maintenance Organization
HP ....High Pressure
HRIBF ....Holifield Radioactive Ion Beam Facility
HT ....High Temperature
HTDS...High Temperature Desulfurization System
HTHP ....High Temperature-High Pressure
HTS ....High Temperature Superconductivity
HVAC...Heating, Ventilation, and Air Conditioning

I

IA ....Implementing Agreement
IAEA ....International Atomic Energy Agency
ICBM ....Intercontinental Ballistic Missiles
ICF ....Inertial Confinement Fusion

ICRF ....Ion Cyclotron Radio Frequency
IDW ....I-MANAGE Data Warehouse
IECC ....International Energy Conservation Code
IG ....Inspector General
IGCC ....Integrated Gasification Combined Cycle
I-MANAGE ....Integrated Management Navigation System
INEEL ....Idaho National Engineering and Environmental Laboratory
INL..Idaho National Laboratory
IOP..Intensive Operations Period
IOU ....Investor Owned Utilities
IPHE ....International Partnership for the Hydrogen Economy
IPIA ....Improper Payments Information Act
IPIS ....Integrated Pit Inspection Station
IPP ....Initiatives for Proliferation Prevention
ISO ....International Standards Organization
ISTC..International Science and Technology Center
IT ....Information Technology
ITER..International Thermonuclear Experimental Reactor
ITM ....Ion Transport Membrane

J

JAERI ....Japan Atomic Energy Research Institute
JASPER ....Joint Actinide Shock Physics Experimental Research
JET ....Joint European Torus
JGI ....Joint Genome Institute
JIP ....Joint Industry Projects

K

KCP ....Kansas City Plant
Kg..Kilogram
KW..Kilowatt
KWH ....Kilowatt Hour

L

LA ....License Application
LANL ....Los Alamos National Laboratory
LANSC..Los Alamos Neutron Science Center
LCFG ....Laboratory for Comparative and Functional Genomics
LEP..Life Extension Program
LEU ....Low-Enriched Uranium
LHC ....Large Hadron Collider
LIGA ....Lithographie Galvanaplastie Abformung (German)
Lithography, Plating, Molding (English)
LLNL ....Lawrence Livermore National Laboratory
LLW ....Low Level Waste
LM ....Legacy Management

LMAES ....Lockheed Martin Advanced Environmental Systems, Inc.
LMITCO ....Lockheed Martin Idaho Technologies Company
LPW..Lumens per Watt
LSN ....Licensing Support Network
LWR..Light Water Reactor
LWST ....Low Wind Speed Turbine

M

MAR ....Major Assembly Release
MARS ....Management and Reporting System
MCFC ....Molten Carbonate Fuel Cell
MCO ....Multi-Canister Overpack
MESA..Microsystem and Engineering Science Application
MHD ....Magnetohydrodynamic
MIDCARB....................................Midcontinent Interactive Digital Carbon Atlas and Relational Database
MIE ....Major Items of Equipment
MIT ....Massachusetts Institute of Technology
MLLW ....Mixed Low-Level Waste
MMS ....Minerals Management Service
MOX ....Mixed-Oxide Fuel
MPC&A..Material Protection Control and Accountability
MPF ....Modern Pit Facility
MRI ....Magnetic Resonance Imaging
MSP ....Managed Staffing Plan
MT ....Metric Tons
MTHM ....Metric Tons of Heavy Metal
MV..Megavolts
MVA..Million Volt Amps
MW ....Megawatt
MWH..Megawatt Hours

N

NA ....National Nuclear Security Administration
NAAQS ....National Ambient Air Quality Standards
NAEWG..North American Energy Working Group
NASA ....National Aeronautics and Space Administration
NATCARB ....National Carbon Sequestration Database and Geographic Information System
NCSX..National Compact Stellarator Experiment
NCTS ....NIF Cryogenic Target System
NE ....Office of Nuclear Energy, Science and Technology
NEP ....National Energy Policy
NERC..North American Electric Reliability Council
NERI ....Nuclear Energy Research Initiative
NERSC..National Energy Research Scientific Computing Center
NESS ....Nuclear Explosive Safety Study
NETL ....National Energy Technology Laboratory
NFRC..National Fenestration Rating Council

NGA..Next Generation Computer Architecture
NGNP ....Next Generation Nuclear Plant
NICE3 ....National Industrial Competitiveness through Energy, Environment, and Economics
NIF..National Ignition Facility
NLC ....Next Linear Collider
NN ....Nuclear Nonproliferation
NNSA..National Nuclear Security Administration
NOx ....Nitrous Oxide
NP ....Nuclear Physics
NPR ....Nuclear Posture Review
Naval Petroleum Reserve
NR ....Naval Reactors
NRC..Nuclear Regulatory Commission
NSRC..Nanoscale Science Research Center
NSTX..National Spherical Torus Experiment
NTS ....Nevada Test Site
NWC ....Nuclear Weapons Council
NWF ....Nuclear Waste Fund
NWIR ....Nuclear Weapons Incident Response
NWPA ....Nuclear Waste Policy Act

O

OA ....Office of Independent Oversight and Performance Assurance
OCRWM ....Office of Civilian Radioactive Waste Management
ODP..Ocean Drilling Program
OE ....Office of Electricity Delivery and Energy Reliability
OETD ....Office of Electric Transmission and Distribution
OIT ....Office of Industrial Technologies
O&M ....Operation and Maintenance
OMB ....Office of Management and Budget
OMBE ....Office of Management, Budget and Evaluation
ONT..Office of National Transportation
OPM ....Office of Personnel Management
OPS ....Operations per Second
ORNL ....Oak Ridge National Laboratory
OSRP ....Off-Site Source Recovery Program

P

PAC ....Physics Advisory Committee
PAR ....Performance and Accountability Report
PART ....Program Assessment Rating Tool
PB..Petabyte
PB-1 ....Inverse Picobarnes
PCD ....Production Control Document
PDCF..Pit Disassembly and Conversion Facility
PED ....Project Engineering Design
PEP ....Positron Electron Project

PGF ....Production Genomics Facility
PIE ....Post-Irradiation Examination
PL..Public Law
PM ....Particulate Matter
PMA...President's Management Agenda
Power Marketing Administration
PNNL...Pacific Northwest National Laboratory
PPO ....Preferred Provider Organization
PRB ....Post Retirement Benefit
Pu..Plutonium
PV ....Photovoltaic
PWR...Pressurized Water Reactor

Q

QCD ....Quantum Chromodynamics
QMU ....Quantitative Margins and Uncertainties

R

RAFR ....Recordable Accident Frequency Rate
RAP ....Radiological Assistance Program
RBMK ....Reactor Bolshoi Moshchnosti Kanalnyi
R&D...Research and Development
RD&D ....Research, Development, and Demonstration
RDD...Radiological Dispersal Devices
RECA ....Radiation Exposure Compensation Act
REM...Roentgen Equivalent Man
RERTR..Reduced Enrichment Research and Test Reactor
RF..Radio Frequency
RHIC ....Relativistic Heavy Ion Collider
RIA...Rare Isotope Accelerator
RIAR ....Scientific Research Institute of Atomic Reactors (Russian)
RNEP ....Robust Nuclear Earth Penetrator
RREF ....Risk Reduction Efficiency Factor
RRW ....Reliable Replacement Warhead
RSI ....Requirement Supplementary Information
RSSI ....Required Supplementary Stewardship Information
RTBF ....Readiness in Technical Base and Facilities
RTI...Russian Transition Initiative
RTO ....Regional Transmission Organization
RW ....Office of Civilian Radioactive Waste Management

S

SABRS ....Space and Atmospheric Burst Reporting System
SAIDI...System Average Interruption Duration Index
SBS ....Standard Budget System
SC..Office of Science

SCDHEC ....South Carolina Department of Health and Environmental Control
SCE ....Sub-Critical Experiment
SciDAC ....Scientific Discovery through Advanced Computing
SEAB ....Secretary of Energy Advisory Board
SECA ....State Energy Conversion Alliance
SEER ....Seasonal Energy Efficiency Ration
SEP...Subscale Engineering Prototype
SFAS...Statement of Financial Accounting Standards
SFFAS...Statement of Federal Financial Accounting Standards
SGT ....Safeguard Transporters
SLAC ....Stanford Linear Accelerator Center
SLBM ....Sea-Launched Ballistic Missile
SLD ....Second Line of Defense
SMV...Special Monitoring Visits
SNF ....Spent Nuclear Fuel
SNL ....Sandia National Laboratory
SNO ....Sudbury Neutrino Observatory
SNS ....Spallation Neutron Source
SOFC ....Solid Oxide Fuel Cell
SPR ....Strategic Petroleum Reserve
SRNL ....Savannah River National Laboratory
SRR ....Seismic Research Review
SRS..Savannah River Site
SSA...Office of Security and Safety Performance Assurance
SSP ....Stockpile Stewardship Program
SSRL...Stanford Synchrotron Radiation Laboratory
STA...Secure Transportation Asset
STARS ....Standard Accounting and Reporting System
STS...Stockpile to Target Sequence
SWSA 4 ....Solid Waste Storage Area 4

T

TB ....Terabyte
TEF ....Tritium Extraction Facility
TeraOPS...Trillions of Operations per Second
TFTR ....Tokamak Fusion Test Reactor
TGA ....Thermogravimetric Analyzer
THF ....Tetrahydrofuran
TJNAF ....Thomas Jefferson National Accelerator Facility
TMO ....Transparency Monitoring Office
TPBARS...Tritium-Producing Burnable Absorber Rods
TPC ....Total Project Cost
TPD ....Technical Progress Document
TRA ....Test Reactor Area
TRU ....Transuranic
TSTA ....Tritium Systems Test Assembly
TTC ....Transformational Technology Core
TVA ....Tennessee Valley Authority

U

UC ....University of California
UCLA...University of California Los Angeles
UEIP ....Ural Electrochemical Integrated Plant
UI..Unpaid (Federal) Investment
UMTRCA ....Uranium Mill Tailings Radiation Control Act
UP ....University Program
UREX...Uranium Extraction Plus
USEC ....United States Enrichment Corporation
USG ....United States Government
USIC ....United States Industry Coalition

V

VNIIEF ....All-Russian Scientific Research Institute of Experimental Physics (Russian)
VVER...Water-cooled, Water-moderated Energy Reactor (Russian)

W

WER...Water Effects Ratio
WIPP ....Waste Isolation Pilot Plant
WIR ....Waste Incidental to Reprocessing
WMD...Weapons of Mass Destruction

We welcome your comments on how we can improve the Department of Energy's Performance and Accountability Report.

Please provide comments and requests for additional copies to:

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